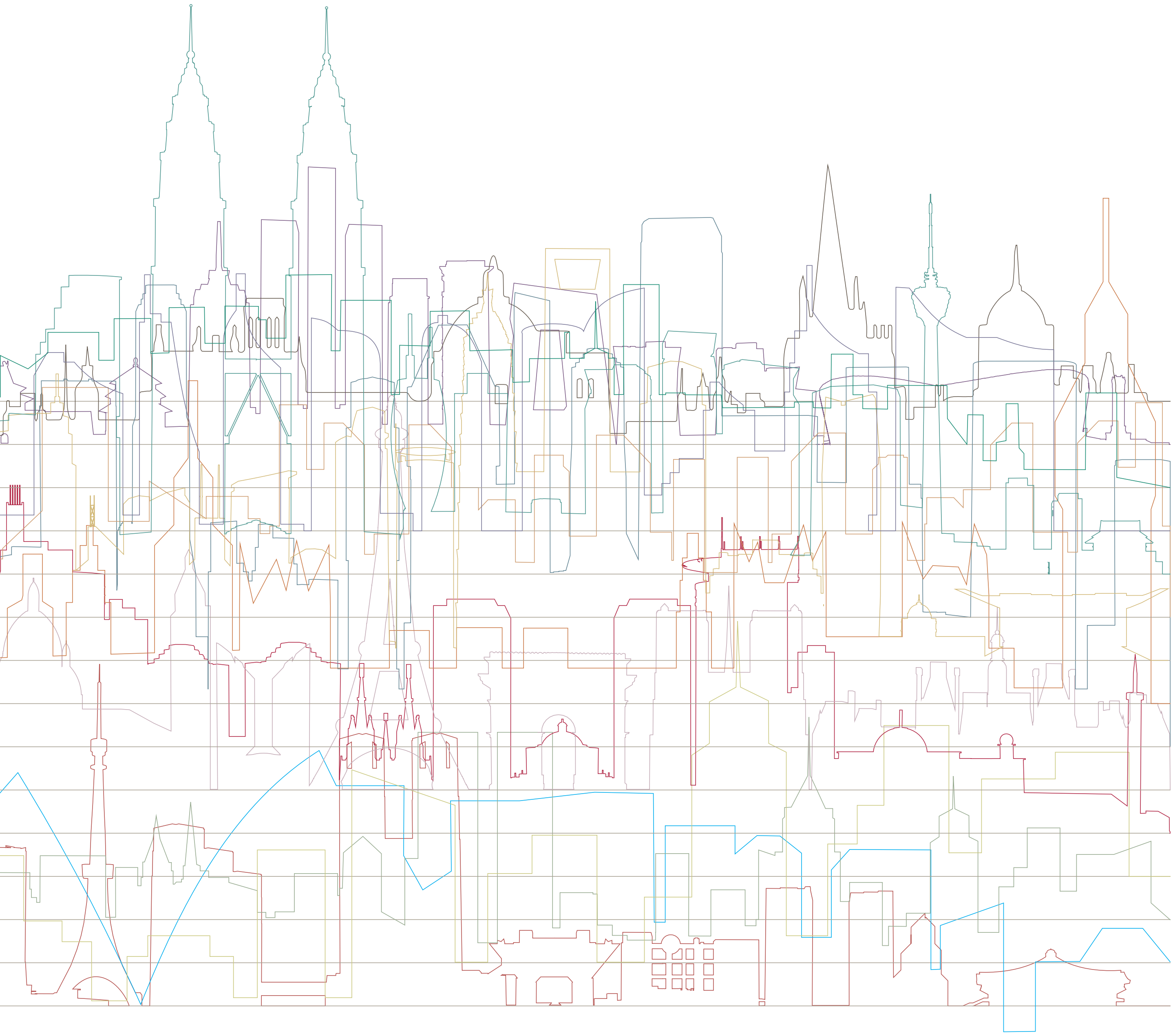
THE OXFORD METRICA REVIEW

PROFILES IN CRISIS



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What happened to Silicon Valley Bank

RATE HIKES TRIGGERED A SHARP DECLINE IN BOND PRICES, DEPLETING THE VALUE OF SVB'S ASSETS

Silicon Valley Bank (SVB) was a state-chartered commercial bank headquartered in Santa Clara, California. It was a distinguished institution in the banking and financial services sector, known for serving startups and venture-backed firms. The bank was the primary subsidiary of SVB Financial Group, a publicly traded bank holding company with offices in fifteen U.S. states and over a dozen international jurisdictions.

The abrupt downfall of SVB unfolded within a frenzied 48-hour period marked by a rapid exodus of depositors. However, the actual cause of SVB's collapse traced back to decisions made several years prior. SVB had heavily invested in US government bonds amid an era of persistently low interest rates. Initially perceived as a secure investment strategy, events turned soured when the Federal Reserve initiated a series of interest rate hikes to deter mounting inflation. These rate hikes triggered a sharp decline in bond prices, depleting the value of SVB's assets.

With the backdrop of escalating borrowing costs driven by the Fed's vigorous rate increases, tech startups were forced to divert a substantial portion of their capital toward debt repayment. These startups drew upon their deposits entrusted to SVB which further drained the bank of its capital. In early March of 2023, due to a confluence of factors – beginning with an announcement that the bank had raised a significant amount of capital (sparking concerns about bank solvency) - a bank run was initiated by depositors resulting in approximately $42 billion in withdrawals. This led to the collapse of the once-thriving $212 billion tech lender.

SVB marked the second largest bank failure in U.S. history after Washington Mutual's demise in 2008.

How management responded

During the course of SVB's lifespan, it became evident that senior leadership failed to manage basic interest rate and liquidity risk. Its board of directors failed to oversee senior leadership and hold them accountable. SVB operated without a full-time chief risk officer for eight months during 2022; its 2022 filing showed only six members on the committee with no chair. Following SVB's press release on 8th March on its capital raise and amidst rumors of troubles ahead, SVB Financial Group Chief Executive Greg Becker held a conference call, which lasted ten minutes, advising clients to stay calm and requested that its banking clients support SVB the way that the bank had backed its customers over the last 40 years.

Outcomes

Following Becker's call, a series of speculatory theories fueled by social media precipitated financial panic as investors began withdrawing their funds from SVB. This contagion was heralded as the largest bank run in history.

Lessons learned

1. SVB's board of directors and management failed to manage their risks.

2. Supervisors did not fully appreciate the extent of the vulnerabilities as SVB grew in complexity, nor did the bank do an adequate job in diversifying its clientele to minimize its risks.

3. When the bank did identify vulnerabilities, they did not take sufficient steps to ensure that SVB fixed those problems quickly enough.

4. This profile highlights how poor communication and/or lack of communication and transparency is able to tranform concern into a fully fledged crisis.

Market reaction

8th March 2023 - SVB made a significant announcement, disclosing a capital raise of $500 million from General Atlantic. The bank unveiled plans for a substantial $1.25 billion common stock sale, accompanied by an additional $500 million in depository shares. This ignited solvency risks. Earlier on the same day, Silvergate, a bank well-regarded within the crypto industry, issued the shocking news that it was shutting down, potentially foreshadowing broader industry challenges.

9th March 2023 - SVB's stock plummeted by 30% in the initial trading hours—and reached an even further drop of 60% by the close of the day. This dramatic downturn prompted a growing number of venture capitalists (VCs) and startups to initiate the process of withdrawing their funds from the bank, signifying a notable shift in investor confidence.

SILICON VALLEY BANK

FIGURE 1. Silicon Valley Financial Group (September 2022 to September 2023) ($)

What happened to Anheuser-Busch InBev's Bud Light

IN THE WEEK ENDING 8TH APRIL 2023 BUD LIGHT EXPERIENCED AN 11% DECLINE IN SALES

Founded more than 165 years ago, Anheuser-Busch (AB) is one of America's most iconic beer companies and is the parent company of Bud Light. AB recently encountered significant backlash when trans influencer, Dylan Mulvaney stirred unexpected controversy. On 1stApril, in an effort to commemorate March Madness and mark her first year of womanhood, Mulvaney posted on social media a commemorative beer can sent to her by Bud Light.

This event (social media post) unexpectedly triggered anti-trans sentiments and sparked outrage among its consumers. A boycott on Anheuser-Busch products, specifically its Bud Light products, was called upon in April 2023. The bulk of the backlash received were from American conservatives, including singer Kid Rock, who helped instigate a boycott against Anheuser-Busch and Bud Light. Proponents of the blacklisting described Mulvaney's sponsorship as "political" because it involved a transgender woman who had previously advocated for transgender rights.

How management responded

AB's immediate response to the boycott was the following statement: *From time to time, we produce unique commemorative cans for fans and for brand influencers, like Dylan Mulvaney. This commemorative can was a gift to celebrate a personal milestone and is not for sale to the general public.* The company also noted that *No one at a senior level was aware this was happening.* It was also alleged that AB would be pausing all influencer marketing deals until more robust vetting procedures could be implemented. On 14th April Anheuser-Busch's CEO Brendan Whitworth issued the following statement:

We never intended to be part of a discussion that divides people. We are in the business of bringing people together over a beer. My time serving this country taught me the importance of accountability and the values upon which America was founded: freedom, hard work and respect for one another. As CEO of Anheuser-Busch, I am focused on building and protecting our remarkable history and heritage. I care deeply about this country, this company, our brands and our partners. I spend much of my time traveling across America, listening to and learning from our customers, distributors and others. Moving forward, I will continue to work tirelessly to bring great beers to consumers across our nation.

On 17th April, 2023, responding to the boycott, AB rolled out a revised advertising campaign featuring Clydesdale horses against the backdrop of rural, small town American landscapes. On 21st April, Anheuser-Busch issued a statement that Bud Light's VP of Marketing Alissa Heinerscheid, had taken a leave of absence and would be removed from her post. A second executive, Daniel Blake, who was Heinerscheid's supervisor, was also placed on leave in the aftermath of the controversy. The company also announced the hiring of two Washington, D.C.-based conservative political consultant groups to advise the brand moving forward.

Outcomes

In the week ending 8th April, 2023, Bud Light experienced an 11% decline in sales, and a 21% decline in the week ending 15th April. As of 1st May, Bud Light "off-premise sales" had declined 26% since the start of the boycott. In the month following the advertisement, Bud Light's sales fell between 11% and 26%, while Anheuser-Busch's sales fell about 1%.

Lessons learned

1. When an iconic brand acknowledges that it is "losing touch" with a younger demographic, how does it effectively engage with new customer segments and foster inclusivity, without alienating its existing base?

2. How integrative should marketing strategies be with social issues?

3. How should the board have responded to the backlash?

4. What are some of the ethical considerations in marketing and how to balance profit *vs* values?

5. How can well-established brands adopt a progressive approach to seamlessly integrate and advance their diversity, equity, and inclusion (DEI) initiatives?

Market reaction

In May 2023, AB InBev's stock price fell 20%, and was classified as a bear stock by Forbes. HSBC Securities downgraded its rating on the company from 'Buy' to 'Hold'. That same month Bud Light lost its status as the top-selling beer in the United States to Modelo Especial, a spot it held for twenty years.

ANHEUSER-BUSCH INBEV (BUD LIGHT)

FIGURE 2. **Anheuser-Busch Inbev (2023) ($)**

What happened to Deutsche Bank's DWS

DWS LOST €1BN IN MARKET CAPITALISATION IN A SINGLE DAY IN 2021

On 31st May, 2022, German law enforcement raided the offices of DWS and its majority stakeholder Deutsche Bank, as part of a probe into allegations of DWS misleading investors about its environmental, social and corporate governance (ESG) practices and greenwashing within its sustainable investment branches. Greenwashing refers to an organisation making exaggerated or deceptive claims to make it appear more environmentally friendly than it actually is.

The US Securities and Exchange Commission and German financial watchdog BaFin had launched separate investigations in the prior year following a whistleblower's allegations. The whistleblower, Desiree Fixler, the former head of sustainability at DWS, alleged that the company, had overstated the proportion of its assets that were invested using ESG criteria in its 2020 annual report.

How management responded

German regulators also initiated investigations into Deutsche Bank President Karl von Rohr and his involvement with DWS.

On 9th June, the CEO Asoka Wöhrmann resigned.

Following the resignation, Christian Sewing, Deutsche Bank's CEO, expressed gratitude to Wöhrmann for his *impressive work and performance.* Karl von Rohr, DWS's chair, also offered commendations, stating, *Under his leadership, DWS has expanded its market position and performed well in a recently challenging environment.*

DWS announced its new CEO, Stefan Hoops, former head of the corporate bank at Deutsche Bank, who identified an urgent imperative to re-establish trust in DWS as a platform. Subsequent reports have not indicated any efforts to address this issue.

Outcomes

An internal report revealed that only a substantially small portion of the firm's $831 billion in assets under management had been subjected to ESG criteria. Additionally, DWS invested approximately $850 million from its "green" funds into fossil fuel companies in 2022 despite advertising its fund as a gateway to environmental protection.

Lessons learned

1. What is the board's role in overseeing the actions of a company, particularly in matters pertaining to ethics, conduct and transparency?

2. Delving into the repercussions of greenwashing on a firm's image and the trust of its investors, what strategies can the board employ to rebuild its standing?

3. How does the board effectively evaluate and mitigate the reputational risks stemming from allegations of greenwashing?

4. In light of the increasing focus on corporate governance and greater scrutiny on corporate ESG declarations, how can these factors be harmonized for more effective oversight?

Market reaction

Shares in DWS declined by 26% since the SEC and BaFin investigations became public in August 2021.

The report of the raid on Deutsche Bank and DWS had a significant impact on both companies. It's important to note also that the Financial Times reported that DWS lost €1 billion in market capitalization in a single day in 2021 after investigations by U.S. authorities were made public, yet Wöhrmann enjoyed a 15% increase in compensation to €6.9 million.

DEUTSCHE BANK (DWS)

FIGURE 3. **DWS (Deutsche Bank) (2022) (€)**

What happened to NatWest Bank (Coutts)

NATWEST LOST £1BN IN MARKET CAPITALISATION IN A SINGLE DAY

Ms Alison Rose, CEO of NatWest Bank, the UK's largest retail bank, was bestowed a Damehood for services to financial services in June 2023. Ms Rose was a well-known proponent of corporate social responsibility. At the time of her installation to the Damehood on 16th June, 2023 NatWest's market capitalisation was $30 billion - within forty days Dame Alison had to resign as CEO and the market capitalisation was $26 billion. The seeds of her demise had been sown earlier in 2023 by the Reputational Risk Committee (RRC) at Coutts Bank, a subsidiary of NatWest. The RRC, based on a forty-page internal report, determined to debank Nigel Farage, a controversial UK politician. The report cited an incompatibility between the bank's and Farage's ethical values. Coutts issued a letter informing Farage in private correspondence that his bank accounts were to be closed, no reasons were offered. On the 29th June Farage announced his debanking in a six minute video on X without mentioning the name of the bank. When placing this information into the public domain he likened the debanking to being rendered a "non-person" and expressed fears that it might affect his future career and residency in the UK. He speculated that he was debanked because of his political views. In the wake of this announcement, Farage also revealed that he had been rejected by nine different companies for bank accounts. Among these, NatWest, the parent company of Coutts, offered a personal account, but it did not meet Farage's business needs. In the subsequent days there followed considerable public debate on the equity of debanking, culminating in an announcement on 3rd July by the British Prime Minister, Rishi Sunak, that it was wrong for banks to close a person's account on the basis of their political convictions. The British government had spent £45bn to bail-out NatWest in 2008, it currently owns 38% of its share capital.

How management responded

It has subsequently emerged that on the evening of 3rd July at the BBC correspondents' charity dinner at the Langham hotel in London, Dame Alison briefed the BBC's head of business news, Simon Jack, on the matter. In an attempt to spin the narrative, she misinformed Jack by saying Farage was debanked because he fell below their minimum balance policy of £3 million. The BBC broke the story on the 4th July after properly confirming with Rose before release. In the meantime, Farage had triggered a so-called Subject Access Request (SAR) from Coutts to have sight of the banks internal report. Farage placed the forty-page Coutts internal report into the public domain on 18th July. The report contradicted Dame Alison's briefing to the BBC. The bank disclosed that its decision was influenced by political factors and cited Farage's "high-profile" nature and propensity to court controversy as significant concerns. Additionally, Farage's views on LGBTQ+ rights were mentioned as issues misaligned with Coutts' values. The report further highlighted that his comments were viewed as "distasteful and increasingly disconnected from broader society". In short not only had Dame Rose committed the most egregious offence of placing confidential information on a client into the public domain, but she broadcasted it and was at best economical with the *actualité.* After forty-eight hours Dame Alison issued a general letter of apology for the whole debanking affair, without mentioning her own role. Finally, after another five days at 18:00 on the 25th July Dame Alison publicly admitted to her involvement and the board under the chairmanship of Sir Howard Davies gave their full support for her to remain in her post.

Outcomes

Later, on the 25th July just four hours after indicating their support for Dame Alison, the board reversed their position. At 08:00 on the following morning, July 26th, NatWest chief executive Dame Alison Rose resigned after she admitted a "serious error of judgment" in discussing Nigel Farage's relationship with the bank and for being an inaccurate source for the senior BBC journalist. She resigned on full pay for twelve months and a £6.5m pay-out including bonuses. The following day Peter Flavel, CEO at Coutts, tendered his resignation taking full responsibility for the crisis. Farage publicly called for the entire board's resignation, following the scandal. Paul Thwaite was appointed as CEO at NatWest.

Lessons learned

1. Boards should respond decisively and quickly in a crisis.

2. Boards cannot protect a CEO from wrongdoing no matter how well they have performed in the past.

3. Boards must avoid spinning a story with the media. Dishonesty is punished.

4. Independent directors need to be stronger.

Market reaction

Between the 16th June and the 27th July NatWest lost almost $4bn in market capitalisation.

NATWEST BANK (COUTTS)

FIGURE 4. **NatWest Bank (2023) (£)**

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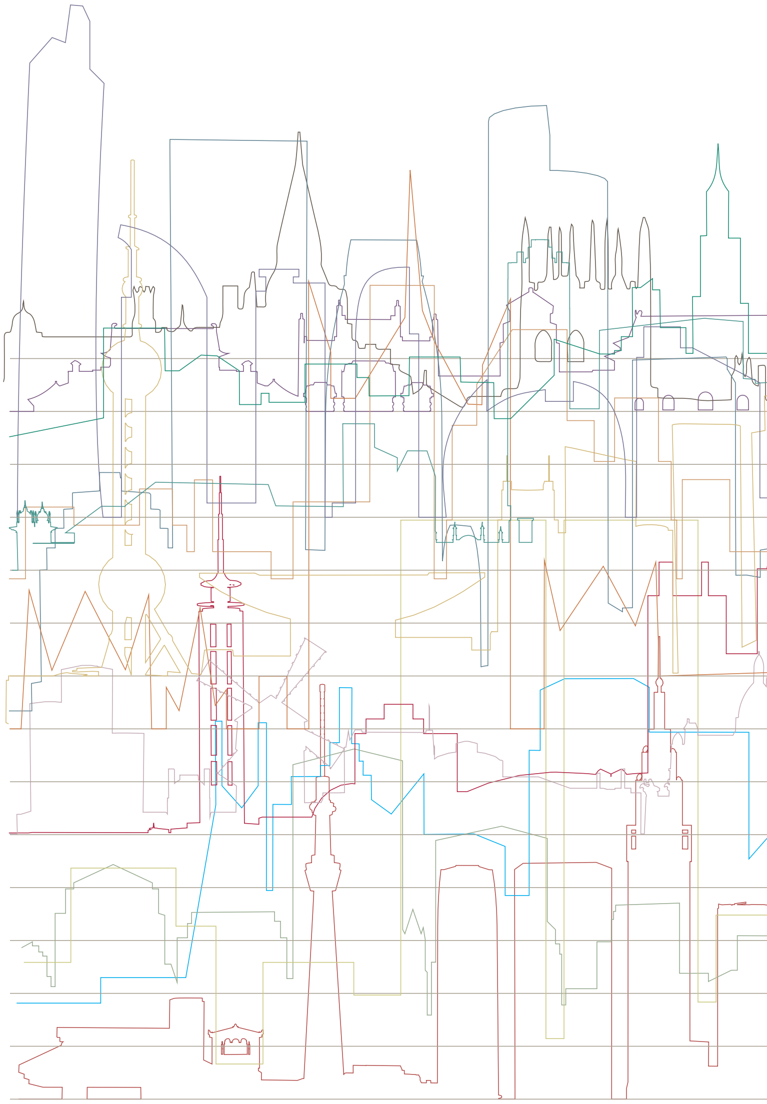
Dr Rory Knight is Chairman of Oxford Metrica. He is a member of the John Templeton Foundation where he chaired investments. Formerly he was Dean of Templeton College, Oxford and before that the Vize Direktor at the Schweizerische Nationalbank (SNB), the Swiss Central Bank. He has served on numerous boards.

Debra Chen is the award-winning host and producer of AdWeeks: “The Great Fail” Business Podcast. Mrs.Chen has significant expertise in communications and market intelligence and has been advising management teams on their strategic positioning, investor relations and crisis management for nearly two decades.



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