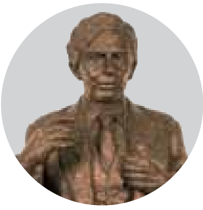
Reputation: a matter that goes to the top

Frank Vogl



The Bracken column is named after Bracken, the founding editor of The Banker in 1926 and chairman of the modern-day Financial Times from 1945 to 1958. This column reflects his enormous contribution to the open discussion and understanding of international finance and banking. It focuses on providing views and perspectives on how to improve the global financial system.

Five years ago, Bear Stearns, the once venerable New York investment bank, collapsed. The dust has still not settled on the banking industry. Concern about risk management continues to be high, fuelled by what often seems like a never-ending series of scandals. There is, to be sure, more agreement now that 'cultural change' is needed, but what shape should this take?

The risk management lapses have been so formidable in many cases, starting with often reckless subprime mortgage origination in the US through to Libor manipulation, that nobody is suggesting that problems are just confined to abuses by a few rogue bankers.

MEDIA THREAT

Over the past two decades, I have been an inside observer of many of the lead managers of the world's largest banks as they engaged in discussions about broad issues of economic and regulatory policies. As the media advisor throughout this period to the Institute of International Finance, I had a ringside seat. I am more convinced than ever that it remains the case that many top managers of leading financial services firms still do not adequately appreciate the pace of change in the media environment in which they have to operate and that, as a result, they remain exceptionally vulnerable to severe damage to their reputations – their most valuable asset.

News of risk management failures spreads more swiftly than ever in today's high-tech, 24/7, information-flowing, globalised world. The impact of any type of negative business news is rapidly multiplied: it spreads swiftly across all markets, unleashes critics, rumours, misinformation and damage on an unprecedented scale.

A STRATEGIC RISK

The starting point for 'cultural change' is a wholesale re-evaluation by boards of directors and senior managements of reputational vulnerabilities. This means recognition in the boardroom that reputational risk is a priority issue, that it needs to be under constant focus by a board committee and that it is a crucial priority for the chief executive officer. It cannot be delegated to the lawyers and the PR staff.

Chief risk officers (CROs), who traditionally do not have training in reputational issues, need to make this a key priority as well. There can be no simple divide between risk management and reputation management. CROs need to ask constantly whether new business approaches and transactions involve reputational risks. They need to be assisted by PR and legal staff who explicitly are mandated to highlight the risks.

Top managers and boards of directors need to understand the dynamics between mainstream media, social media and interest groups (such as major groups of investors and civil society activists). This means understanding how they can all operate together to transform what a top banker may believe is a minor transgression (that his lawyer assures him can be handled) into a major front-page scandal.

Banks need to launch major 'ethics' training programmes so that all their employees understand the ethical values that top managements and boards proclaim, that everyone in the enterprise walks the ethical talk, with the CEO consistently seen as the role model. Top managers and board directors need to learn how to deal directly and with speed with the media and with activist groups and not shield themselves behind defensive lawyers and PR advisors. Firms that fail to be as fast with the media as their critics will be hit hard.

NIP IT IN THE BUD

Many chief executive officers of major financial services firms have been forced to resign over the last five years because of scandals. Some may well believe that they were treated unfairly. All probably believe that the damage that the scandals did to their banks was excessive.

Today's reality is that the public, stoked by activists and the media, wants the risk management and the risk governance bar to be raised to a level far higher than has prevailed over the past decade. Responding to these higher expectations demands fundamental changes in the active ways in which chief executives, chief financial officers and board directors protect and promote the reputations of their institutions. TB

Frank Vogl is president of Vogl Communications in Washington, DC, and author of *Waging War on Corruption – Inside the Movement Fighting the Abuse of Power*.

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