



MANAGING RISK AND BUILDING A SUSTAINABLE BUSINESS

*Phil Cotter



Although it may not seem like it when we read our newspapers, in fact, corporate scandals are relatively few. When they do happen, they tend to dominate the headlines and can bring whole industries into disrepute. When I think of the issues faced by Volkswagen, which was found to have cheated on its emissions testing, Wells Fargo, which was opening false accounts for customers just to meet sales targets, or bankers who manipulated Libor rates, they not only resulted in fines for the corporations involved, but led to greater distrust in business in general.

In most of cases of corporate wrongdoing, it was perpetuated by middle-ranking or even junior employees. Many thousands of employees were fired at Wells Fargo, for instance. However, all too often it is a failure in leadership that allows staff to believe it is acceptable to operate this way, or in the worst case, demand it of them. The culture and values that define every organisation need to be set from the top.

In the UK, this concept of leadership and responsibility has now been codified in the Financial Services industry, in the Senior Managers Regime (SMR), which Bank of England governor Mark Carney heralded as a declaration that “the age of irresponsibility is over”.

The regime means that senior leaders can now be disciplined for compliance failures in areas where they hold ultimate responsibility. It has long been a criticism that individuals too often escape censure for wrongdoing by hiding behind a larger corporation. That is no longer the case.

This is just part of a broader trend by regulators to shift their focus towards conduct and behaviour and customer outcomes, with the aim of ensuring that institutions not only have the right processes in place, but making sure that those processes result in customers being treated fairly. As the UK's Financial Conduct Authority has said, “Senior management must establish the right culture to convert good intentions into fair outcomes for consumers. We do not consider it reasonable for firms to compromise on fair treatment of customers in the name of financial success.”

This is not just happening in the UK. Australia and Hong Kong are also refining their approach to senior individual accountability, and during a recent webinar held by Thomson Reuters in Asia, a poll revealed that 70% of the audience felt there was a need for similar regimes to be introduced in the region.

In today's connected world, companies can find their brands being damaged in real time. The videos that circulated on social media showing a passenger being forcibly removed from a United Airlines flight last year is just one such an example.

So how do directors and senior managers protect their organisations' reputations when their failings can be exposed to millions of people in almost real time?

Many leading business thinkers have devoted their efforts to developing alternative approaches to drive the right kinds of behaviours – ones that can improve business performance as well as foster a culture of doing the right thing.

For one such thinker, Dov Seidman, the answer lies in integrating a sense of purpose into an organisation's culture and strategy. As he puts it: “Now more than ever, a company's purpose has the power to engage and inspire employees, generate customer loyalty, and help businesses chart a course for sustainable, meaningful growth.”

This is more important than ever in today's hyper-connected world, where technology has created instant feedback loops and frequently moves so fast that individuals and corporations feel unable to keep up.

I believe, in a world where machines and automation will play an ever greater role, people and the purpose they embody will also become an increasingly important asset for organisations. Culture and values will become a vital differentiator, and the successful companies of the future will be those whose leaders understand that treating customers fairly is the only way towards properly managing risk and building a sustainable business. ■

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