Some Thoughts on Reputation and Challenges for Global Financial Institutions

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Reputation is an amorphous concept. It is intangible. It can change over time (for better or worse). It is difficult to define. It is difficult to measure. It is difficult, if not impossible, to value (and is assigned no value by our accounting conventions). And yet it is, without question, among the most valuable assets of any company, particularly a global financial institution. ... But what exactly is “reputation” in this context? In my view, “reputation” is a multi-faceted concept derived from many different individual components. A company’s reputation, however, is a blended perception that transcends its individual component parts. For a financial institution, these component parts are multiple and include: financial performance and strength, client trust and confidence, client service, corporate social responsibility, corporate governance practices, corporate ethics, corporate disclosure practices, as well as relations with regulatory authorities and compliance in a broad sense. *The Geneva Papers* (2006) 31, 470–479. doi:10.1057/palgrave.gpp.2510087

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Introduction

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While reputation is “intangible”, damage to an institution’s reputation (and the resulting loss of consumer trust and confidence) can have very tangible consequences – a stock price decline, a run on the bank, a spike in policy surrenders, an outflow of assets under management, a drop in new sales, a ratings downgrade, an evaporation of available credit, regulatory investigations, shareholder litigation, etc. The sources of potential reputational damage for a financial institution these days are multiple (and growing) – unethical or illegal management behavior, accounting irregularities or fraud, poor corporate governance practices, poor corporate disclosure practices, poor compliance practices, poor operating or financial performance over an extended period, a ratings downgrade, mis-selling or similar product/distribution issues, conflicts of interest in a large sense, high profile regulatory investigations, etc. In the recent past, we have seen some striking examples of the very tangible damage that can be done by a blow to a financial institution’s reputation – and we do not need to look beyond the insurance and asset management sectors for some prime

examples.¹ For a global financial institution that operates under a unique trademark and brand name, such as AXA, the risks associated with reputational damage are particularly important due to their almost immediate “knock-on” effects around the globe – effects that can impact sales, surrenders and assets under management, as well as relations with clients, regulators and other constituents.

Defining reputation in a corporate context

But what exactly is “reputation” in a corporate context? “Reputation” is a multifaceted concept derived from many different individual components. A company’s reputation, however, is a blended perception that transcends its individual component parts. For a financial institution, these component parts are multiple and include: financial performance and strength, client trust and confidence, client service, corporate social responsibility, corporate governance practices, corporate ethics, corporate disclosure practices, as well as relations with regulatory authorities and compliance in a broad sense. It is the combination of these elements in a variety of different circumstances that creates the public perception of an institution – its image in the marketplace – its “reputation”.

A company’s trademark is the tangible embodiment of these diverse elements in the public mind and, consequently, is inextricably linked to its reputation. A company’s reputation, however, is also distinct from its trademark because, for example, a company cannot overcome reputational woes just by changing its name or mark. In this sense, “reputation” is very closely linked to public perception and, like public perception, it can be affected (for better or worse) by a variety of factors. While all global financial institutions expend significant resources to shape and promote (i.e., to “manage”) their public image and reputation, not all factors that affect reputation can be controlled – certain of them are driven largely (or entirely) by external events beyond control of management.

The challenge of managing reputation and reputational risk: promoting and protecting reputation in an evolving business and regulatory environment

In this context, one of the great challenges for management of a global financial institution is to find the right balance between (1) managed promotion of an institution’s reputation in the global marketplace, and (2) management of downside reputational risk – that is, protecting an institution’s reputation in a crisis situation. Striking the right balance between “offense” and “defense” involves a large degree of judgment and often depends on external developments and circumstances beyond

¹ In the insurance and asset management sectors, we have seen significant negative impacts in the recent past (i) on certain asset managers (and the entire U.S. mutual fund industry) triggered by regulatory investigations into “late trading” and “market timing” practices; (ii) on certain insurance brokers triggered by regulatory investigations into “bid rigging” practices in placement of insurance coverage; and (iii) on certain insurers triggered by regulatory investigations into use of finite reinsurance and other “non-traditional” insurance products principally to achieve financial reporting effects.

management's immediate control. While the offensive part of the game can normally be planned in a coherent and rational manner based on business development strategies, target markets, and pre-conceived advertising and publicity campaigns designed to promote an institution's reputation, the defensive part of the game often involves crisis management – quick reaction to unfolding events that threaten to damage an institution's reputation. An effective program for managing reputation needs to take both sides of the equation into account and be capable of adjusting the mix quickly and pragmatically in response to specific events and changing circumstances.

Managed promotion of an institution's reputation

A financial institution's reputation is a blended perception of many individual component parts and, consequently, an effective program for promoting an institution's reputation needs to reflect and address these numerous component parts either directly or indirectly. In other words, a program of managed promotion needs to be multifaceted and cover the full range of subjects that are important in shaping the public perception of a financial institution – and these range from “harder” elements which are more tangible/quantifiable (e.g., financial performance, financial strength ratings, innovative products, technical expertise and client service) to “softer” elements which are more intangible and harder to quantify with any precision (e.g., client trust and confidence, corporate ethics, corporate social responsibility, compliance and good corporate governance practices). While the “softer” elements are often more difficult to quantify in a financial sense, they are critically important to an institution's reputation and have become increasingly so over the past several years in the wake of the serious lapses in corporate ethics, compliance, and governance that were plainly apparent in the well publicized corporate meltdowns at Enron, Woldcom, Parmalat and others of recent vintage.

The means for promoting an institution's reputation are multiple and diverse – ranging from (1) managed promotional activities (such as traditional advertising and publicity campaigns, corporate philanthropy initiatives, sustainable development and social responsibility initiatives, etc.), to (2) core business process improvements (such as product development initiatives, innovative pricing structures/segmentation, and client service initiatives designed to distinguish the institution from its competitors with a unique product/value/service proposition), to (3) corporate level initiatives (such as good corporate governance and disclosure practices, sound ethics policies/practices, and good compliance practices designed to distinguish an institution from its peers and to instill a sense of public trust and confidence in the integrity and transparency of the institution). While these promotional activities are multi-faceted and may take many different forms in different markets around the world, their basic objectives are often the same: to promote the institution's products and services to potential consumers in its target markets, to raise public awareness generally about the institution, its business and products (i.e., brand awareness), to raise awareness in the investment community about the institution as a potential long-term investment opportunity, and, more generally, to create a positive and distinct perception of the institution in the public mind.

In addition to these types of managed promotional initiatives, solid financial performance and strength are, of course, critically important to the reputation of any financial institution and remain the foundation on which all other elements of its reputation (and initiatives to promote reputation) are built. Consistent financial results, a strong balance sheet and strong financial strength ratings are among the “hard” elements of reputation – they are imminently quantifiable and “speak for themselves” in the sense that no amount of promotion or “spin” can compensate for poor performance or impaired financial strength. This is particularly the case for a financial institution because nothing could do more harm to its reputation (or cause greater damage to its clients, shareholders, employees and other stakeholders) than a financial default or other deep financial problems. In considering reputation and reputational risk, it is important never to lose sight of this basic fact because if the financial strength or long-term viability of a financial institution ever come into question, no amount of advertising or other promotional activity can overcome the long-term damage to reputation. In this sense, the single most important promotional activity for a financial institution’s reputation over the long term may be the most basic of all: good management and solid financial performance.

Crisis management

The other side of managing reputation, of course, is “defense” – protecting the invaluable asset that has been built over many years. In a crisis situation, this may involve reacting quickly to evolving circumstances under conditions that are less than clear. When it comes to safeguarding an institution’s reputation, however, a failure to act may be the most risky and damaging course of all. In this respect, “crisis management” is all about reputation – containing reputational damage flowing from some specific set of events or circumstances. While the nature of the underlying crisis may vary,² the focus of a crisis management effort is almost always the same: (1) quickly addressing the underlying issue that gave rise to the crisis; and (2) containing the reputational damage flowing from it. In this type of situation, addressing the specific issue that gave rise to the crisis is often the easier part of the exercise – effectively managing the reputational risks can be the more daunting challenge (and the one that poses far more risk for a company over the long-term basis than the specific incident that gave rise to the crisis).

In this context, it is interesting (and somewhat ironic) to note that crisis management is all about protecting an asset – reputation – to which our accounting principles assign no value. This is not to suggest that we should begin creating balance sheet assets to reflect the value of “reputation”. The point is made simply to underscore the obvious: all institutions, regardless of the nature of their business, assign great value to their reputations and spend a great deal of time, money and effort to develop, promote and safeguard them. This is particularly true for a global financial

² This type of crisis may involve, for example, an airplane crash for an airline company, an oil spill for an energy company, product contamination or client fatalities for a drug company, accounting irregularities or fraud for a financial institution, etc.

institution, like AXA, that operates worldwide under a unique global brand name and trademark.

The increasing importance of reputation in the post-Enron world

In the post-Enron world, consumers, financial analysts, rating agencies, proxy solicitors, auditors and others are increasingly focused on reputation, in a large sense, and on the specific values and practices that underlie an institution's reputation. Over the past few years, we have seen these constituents attach increasing importance to the establishment of formal corporate policies and practices in such areas as corporate ethics and values (including effective procedures to address conflicts-of-interest), compliance, corporate governance, disclosure practices, sustainable development, and similar matters. They have also attached increasing importance to the "tone at the top" on these important issues and demand tangible evidence that senior management pays more than "lip service" to them. In this context, we have witnessed the rise of social rating agencies which have developed models for assessing a company's level of, and commitment to, corporate social responsibility in a large sense – ranging from ethical to environmental to humanitarian issues. In a similar vein, we have seen the increasing importance and visibility of socially responsible investing both in the investment of our own assets and in the types of investment products that we offer to our clients – such as environmentally friendly investment funds and similar products.

While these matters were always important, they have clearly come to centre stage and captured the public's attention in the wake of Enron, Worldcom, Parmalat and the other well-publicized corporate meltdowns of recent vintage. In today's environment, global financial institutions are, more than ever before, expected to be responsible corporate citizens – responsible to all their various stakeholders: clients, shareholders, employees, suppliers, regulators and the communities in which they operate. In today's business environment, integrity, honesty, social responsibility and transparency are "baked into" a company's reputation and have taken on an importance at least equal to that of a company's financial performance. In other words, a company is no longer judged just on its financial performance – it is also judged on how it achieves that performance. In this context, a company's "reputation" – its image in the global marketplace and the public perception of it – have never been more important and management must be increasingly sensitive to, and vigilant in managing, potential reputational risks.

At AXA, we see this evolution in virtually all markets where we operate. In Europe and North America these issues have been the subject of frequent press attention over the last several years and we discuss them with multiple constituents on a regular basis (including clients, financial analysts, financial and social rating agencies, proxy solicitors and corporate governance advisory groups). We also see their increasing importance, however, in the Asia-Pacific zone and in various developing markets where we operate. While the importance of reputation seems to pervade virtually all markets where we operate today, the importance (and value) of reputation is at a particular premium in the life and savings side of our business where customer trust and confidence are absolutely critical given the long-term nature of the commitments

we make to our customers. Over the past several years, the importance of reputation and the increasing emphasis on the “softer” elements of reputation (such as trust, confidence, integrity, corporate ethics, sustainable development and corporate social responsibility) seem to have become a universal phenomenon not limited to particular markets. This is a trend that we see as long-term – not a passing fad that will be gone with the next “big thing” but a more fundamental shift in mindset and perception that is with us to stay and which must be managed proactively and carefully.

For a global financial institution, reputation is especially linked to two elements that constitute the cornerstones on which the entire capitalist financial system is built: trust and confidence. In the insurance and asset management sectors this is especially true because our business is all about taking and keeping long-term commitments. In addition to the sophisticated financial products that we sell to our clients, we also sell to them a more basic commodity: “peace of mind”. In this context, our reputation and our image in the marketplace could not be more important. It is the key to maintaining the continued trust and confidence of our clients. It is the key to our future success.

The AXA experience

At AXA, we have long believed that our continued success and our reputation in the global marketplace depend not only on the quality of our products and service but also on the manner in which we conduct our business. We operate in approximately 50 countries around the world, and the public perception of AXA and its image in the market place – our “reputation” – is the foundation of our current and future success. Given our decision to operate worldwide under a unique trademark and brand name, we have been keenly focused on these issues for many years – recognizing that any damage to our reputation has potential global consequences for us. We are also very aware that all the hard work and years of effort that have gone into establishing and promoting our reputation can be lost in the blink of an eye if we are not ever-vigilant.

We have undertaken a number of specific initiatives designed to shape, promote, measure and safeguard AXA’s reputation and its image in the global marketplace. These include establishing a common set of corporate values and adopting a multi-faceted global communication and sustainable development policy designed to integrate corporate social responsibility and sustainable development into AXA’s business strategy and practices. In recognition of the increasing importance and visibility of our corporate social responsibilities, the AXA Group established a Sustainable Development Department in 2001, which is responsible for coordinating a wide variety of environmental, community, educational and charitable programs across the Group and helping to raise awareness of these issues in the industry. In addition, we devote very substantial resources to legal and compliance matters given the highly regulated nature of our business and the importance of these matters to our reputation in the global marketplace. In this context, we have adopted a Group Compliance and Ethics Guide that applies to all AXA Group companies and employees worldwide and we actively pursue our commitment to transparent corporate governance practices and transparent disclosure practices on a continuous basis.

AXA's corporate values

We have defined a set of shared corporate values for all AXA Group companies and employees worldwide. These values are an integral part of AXA's vision, and the Group is committed to aligning its business practices with these five core values:

- Professionalism
- Innovation
- Pragmatism
- Team spirit
- Integrity

Given that we have over 100,000 employees around the world with different cultural, educational and business backgrounds, we feel that having a clearly defined set of common corporate values is essential to give our employees a sense of context – a sense of the Group's management philosophy and "world view". Obviously these values are broad concepts that need to be translated and applied by our employees to the real-life situations they encounter on a day-to-day basis. We believe, however, that having clearly defined corporate values provides important guidance to the Group's employees in their daily activities and serves as a "backbone" for the Group's continuing efforts to shape and promote its reputation in the various markets where we do business around the world. In the final analysis, we believe that these corporate values help us manage certain of the "softer" elements of reputation by instilling a common vision across the Group and helping to ensure that we act in a consistent and coherent manner in our continuing efforts to promote our reputation over the long-term.

Corporate social responsibility at AXA

We believe that large multinational companies like AXA are increasingly viewed as more than just economic actors and are also viewed as sharing responsibility (alongside governments) for promoting harmonious global development. As generators of wealth and faced with the imperative of constant adaptation, large multinational corporations are increasingly called upon to serve as genuine conduits of progress in many areas – both economic and social.

In this environment, groups like AXA are expected to be responsible corporate citizens making contributions to the communities in which they operate. One of the principal ways that AXA expresses its "personality" as a responsible corporate citizen is through its philanthropic endeavors like "AXA Hearts in Action" which is a corporate program founded some 15 years ago that sponsors community volunteer work by the Group's employees. Approximately 18,000 AXA employees currently donate their time, talent and generosity to community organizations that work with people who are disadvantaged, disabled or excluded.

In addition, we believe that companies must also assume their responsibility as "living bodies" that impact on the environment. While a financial services company may have less "direct" environmental impact than a large manufacturer, environmental concerns are not a minor issue for AXA and we have adopted a Group sustainable development policy to underline the growing importance of these issues.

As an insurer and an investor, we have a clear role to play in this area and can influence behaviors that impact the environment and important social issues through our investment decisions and through our technical expertise as insurers. For example, AXA recently adopted a policy consistent with the Ottawa convention pursuant to which it will no longer invest any of its general account insurance assets in companies that manufacture anti-personnel mines and AXA also sponsors a number of “green” mutual funds that invest in companies promoting environmentally friendly technologies or policies. We also help certain of our insurance clients perform environmental impact studies and suggest preventative measures that can help reduce risks of environmental contamination or similar risks. These are just a few examples of areas where we believe that our insurance and investment management expertise can help contribute to sustainable development of the communities in which we operate over the long term.

While corporate social responsibility has clearly taken on increased importance over the last several years, we, of course, never lose sight of the fact that our most fundamental responsibility continues to be to safeguard the interests of our clients, shareholders, and employees. Our long-term commitments to these stakeholders and prudent management of the Group to ensure that they will be fulfilled is our longest-standing and most fundamental corporate social responsibility of all.

AXA’s key stakeholders

In addition to defining our corporate values, AXA has identified six constituents that we consider to be “key stakeholders” of the Group. These key stakeholders are:

1. clients,
2. shareholders,
3. employees,
4. suppliers,
5. the communities in which we do business, and
6. the environment.

We have tried to clearly define AXA’s commitments to each of these stakeholders in order to provide a clear view of how we see our relationship with them and to guide their expectations as to what they can expect from us. These commitments are not binding contractual engagements but we view them as a type of “social compact” with our key stakeholders. While a detailed discussion of AXA’s commitments to each of these key stakeholders is beyond the scope of this article,³ these commitments are noted here because they are another example of how we try to manage and promote our reputation over the long-term in dealing with these different stakeholders which sometimes have very different and competing interests. We believe that appropriately balancing the interests of these various stakeholders is an important part of managing

³ For the details of these commitments and the related action plans, please see AXA’s website at <http://www.axa.com/en/responsibility/commitments/stakeholders/> and the related publication “AXA’s Commitments” available on this website.

our reputation over the long-term and that in order to appropriately balance these sometimes competing interests it is critical for us to clearly identify (i) the constituents that we consider to be our “key” stakeholders, (ii) their respective “critical path” concerns and issues in their relationship with AXA, (iii) the areas where their interests are aligned and the areas where these interests potentially conflict, and, more generally, (iv) the matters that drive their expectations and behaviors.

The AXA Group Compliance and Ethics Guide

AXA has long been committed to maintaining and promoting high ethical standards and business practices. In order to establish a common vision of the Group’s ethical standards and practices, AXA has adopted a comprehensive Compliance and Ethics Guide that applies to all AXA Group companies and employees worldwide. This Guide defines a number of important Group-wide policies and procedures including those with respect to addressing conflicts of interest, trading in AXA Group securities (including a prohibition on insider trading), handling confidential information, document retention, anti-fraud policies and anti-money laundering policies.

Transparent governance and disclosure practices

Finally, we have a longstanding commitment to transparent corporate governance practices and transparent disclosure practices. AXA has always prided itself on maintaining state-of-the-art governance and disclosure practices in accordance with both French and American standards given AXA’s dual listing in Paris and New York. This includes compliance with all the applicable provisions of the US Sarbanes-Oxley Act as well as extensive disclosure of AXA’s financial performance and on such topics as executive compensation. Given the global nature of our operations and the critical importance of maintaining our credibility with the financial markets, we believe that maintaining our reputation for transparency in governance and disclosure has never been more important.

Measuring our progress

While measuring the impact of these various initiatives on AXA’s reputation and image is certainly difficult, it is not impossible and we have recently begun to undertake pilot surveys designed to measure AXA’s reputation and permit us to track developments over time. This survey involves a periodic questionnaire distributed to a broad cross section of AXA’s key stakeholders as well as to third parties such as members of the media and general public. This questionnaire is designed to solicit their general impressions of AXA as well as their views on specific subjects of particular interest. While this is still in a pilot phase (and is more art than science) at this point in time, we believe that this exercise has great potential value. As the methodology used to measure “reputation” evolves over time, we are hopeful it will allow us to have much more precise views as to the impact of certain events and initiatives on our reputation.

Conclusion

AXA, like other global financial institutions, is keenly focussed on its reputation and image in the global marketplace. When it comes to safeguarding our reputation, we are ever-vigilant because we recognize the hard reality of today's business world: a hard-won reputation resulting from years of work and diligence can be destroyed in a matter of days with just one incident. Consequently, despite the enormous investment of time and resources that we have made over many years to promote and safeguard our reputation, the battle is really never won. It continues on a daily basis and is a constant challenge for management, which I suspect will only grow over time given the ever-changing business and regulatory environment in which we operate.

This challenge is not unique to AXA – it is shared by many global financial institutions which certainly face similar risks and issues. While it is great and never-ending, meeting the challenge is not optional – for a global financial institution the stakes are far too high to let the challenge go unanswered.

About the Author

George Stansfield is General Counsel of the AXA Group (Paris, France). Prior to joining AXA's Legal Department in 1996 Mr. Stansfield practiced law in New York City for 11 years in AXA Equitable's Legal Department concentrating in corporate, securities and M&A matters. Mr. Stansfield graduated Phi Beta Kappa from Trinity College (1982) and from Georgetown Law School (1985) where he was a law review editor. Mr. Stansfield is a member of the New York Bar.