

USA: respect the rules

Arthur Schopenhauer, the 19th Century philosopher, said “mostly it is loss which teaches us about the worth of things”. That should be true of corporate reputations, but is it?

Companies invest millions of dollars building their reputation and, in the United States, spend hundreds of millions of dollars to settle legal actions brought by regulators and law enforcement agencies. It would be reasonable to assume that the scale of fines and penalties would prove devastating to the companies involved, because customers would no longer want to do business with them and shareholders would sell the stock as quickly as they could. Bizarrely, that has not happened. In the US, fines and penalties have increasingly been seen as part of the cost of doing business. Given the enormous amount of complex legislation that has been generated following the financial crisis of 2008, in some ways that perspective is understandable.

As the dollar amount of settlements spiral upwards, the shock-factor appears to be diminishing. But there are signs that this is changing. The logic of a reversion to more normal behavior is compelling, and with it the need for companies to be even more alive to the dangers of playing fast and loose with their reputations.

The recent spectacle of Credit Suisse executives testifying in front of a US Senate Sub-Committee over charges that its employees

arranged for some US clients to evade taxes was just the latest example of law-makers treating executives like piñatas. The bank argued that the problems were caused by a small group of rogue employees and the firm cares deeply about obeying the law. Committee members ridiculed the argument that Swiss law prevented the bank from providing US authorities with information about their clients, and portrayed the executives as being either venal or incompetent, or both. The interesting thing was not the inevitable media coverage, but the fact the Credit Suisse's share price fell dramatically. Shareholders voted with their feet.

Failing to understand the ramifications of the rules that govern business in America is a formula for disaster. Executives who do not appreciate that damage to their company's reputation could prove fatal may end up with plenty of time to reflect on Arthur Schopenhauer's words.