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Reputation as the basis for value creation: ABN AMRO and integrity
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1. Introduction

Every banker will confirm that 'trust' is a precondition for the survival of his organisation. Without the trust of customers, employees, shareholders, the government and supervisors, a bank is not viable: its reputation will not be strong enough to survive in the economic and social environment. Integrity thus plays a central role in the operation of every bank. For integrity is indispensable to win and retain the trust of the stakeholders and to create reputation value on that basis. Without integrity, no trust; without trust, no reputation; and without reputation, a precarious existence.

In this contribution I propose to sketch how ABN AMRO gives shape to reputation management. Integrity plays a central role in this connection. I will cast light on several instruments that ABN AMRO uses in this field and discuss their development and deployment. It will become clear that these instruments form the starting point for the dialogue with external stakeholders. Integrity, also referred to as 'wholeness', is not a characteristic of the organisation as an isolated entity. It is not an internal given. It is a 'wholeness' of the organisation in the complex field of relationships (and tensions) with its stakeholders. Integrity in my view acquires relevance in the interaction, including the dialogue, with third parties. I hope to make clear that 'transparency' and 'dialogue' are key terms in reputation management and therefore in integrity assurance. This will be illustrated with an example.

2. Performance and reputation

Early in 2000 the bank embarked on a strategic restructuring process. This was necessary because of the fact that though the company's revenues were showing healthy growth, its average costs were rising faster. This, of course, was an undesirable situation. We consequently adopted a new course that was expressly aimed at assessing all processes on the basis of actual versus targeted returns. What we want to do is concentrate our attention and resources on those activities that generate sufficient returns; wherever value destruction occurs, remedial action is taken. In adopting this course, we were emphatically guided by the desire to create shareholder value. The use of this term, shareholder value, caused a lot of commotion. Had the bank, so some wondered, narrowed its focus down to a monomaniacal obsession with share price alone?

Evidently we made it insufficiently clear that we do *not* see shareholder value, which in our opinion is the only objective criterion for measuring our results and comparing them with those of other banks, as an isolated concept. We didn't then, and we still don't now. Our mission says that we aim to offer our clients excellent service and that our Values (Respect, Integrity, Teamwork and Professionalism) play a natural part in the attainment

of our mission. Shareholder value is therefore the result of our employees' efforts that are focused on achieving optimum customer satisfaction. Shareholder value is the ultimate measure of success. In this connection we have a long-term focus. So it's not about 'quick wins', but about building up a lasting position in the economic and social environment.

It is evident to ABN AMRO that a strong reputation, alongside an excellent performance, is a key pillar under the creation of value that we envisage. The following diagram provides a simple illustration of the importance of these two dimensions.

[insert: kwadrant model performance / reputatie]¹

In short: only if both performance and reputation are strong, is it possible to create sustainable value. If only one of the two pillars is strong enough, the position will ultimately collapse.

Reputation is the sum total of our stakeholders' perceptions. Interestingly, this implies that ABN AMRO does not 'own' its reputation; that is in the hands of the stakeholders. Continuous efforts are therefore required to maintain our reputation by optimising the relations with these stakeholders. This is all the more necessary considering that 'today's reputation' determines 'tomorrow's performance'. Put differently: if our reputation today is bad in the customer's perception, he will go elsewhere for his mortgage loan tomorrow; and if we have a reputation for not being a generous employer, it will be difficult to recruit sufficient good staff; and if our company has a tarnished reputation today, can it expect to receive a licence to operate from the government tomorrow?

Reputation is determined by a multitude of interactions. To a customer, the quality of the products and services is of pre-eminent importance. The friendliness with which he is served, the time he has to wait at a branch, the alternative distribution channels that he can use (e.g. internet, call centers) all play a role. But a responsive attitude to new thoughts and ideas formulated by major social groups also contributes towards a positive image. I will return to this in section 4. The share price, the company's financial position and, for instance, the signals given by staff at the proverbial birthday party also have an influence. Everyone, including those who are not customers, has an opinion about a company like ABN AMRO.

In short: every interaction that every employee has with stakeholders in particular and the outside world in general makes a potential contribution to the reputation of ABN AMRO. Considering the vital importance of reputation to shareholder value, reputation management must be a top priority for every staff member. To enable the employee to adequately fulfil this responsibility, the company must clearly formulate what it stands for, what it wishes to achieve and within what frameworks. Moreover, it must provide the employee with practicable instruments that help him to maintain the company's reputation.

3. Instruments for reputation management: Corporate Values and Business Principles

¹ The diagrams to which we refer, are available at request

It speaks for itself that ABN AMRO has a broad spectrum of rules and policies that determine the framework in which the operations are carried out. Despite these extensive 'laws', there is a need for additional instruments. In this framework, let me pause briefly at the Values before discussing the recently published Business Principles in greater detail.

In 1997 ABN AMRO launched its 'Corporate Values'. These are: integrity, respect, teamwork and professionalism. The formulation of the values was the outcome of a two-year process launched at the instigation of the then Chairman of the Managing Board. The development process consisted of various elements, including extensive brainstorm sessions, interviews with employees and assistance from external consultants. This process had been started because a need had been identified to reinforce the binding factor within the organisation. Which was all the more relevant because ABN AMRO was growing very rapidly, both organically and through acquisitions. More and more nationalities, company cultures and local brands were being housed under the organisation's roof. Amidst this great diversity, it had to remain clear what united everyone and what was to serve as the "leitmotif" for the actions of all employees, regardless of rank, position, personal ambition and so on. The Values were rolled out in the company through a vigorous process ('cascade model'), making use of various instruments such as a game, a video (in which the Chairman of the Managing Board and various employees underlined the importance of the values), a standard presentation and posters. This process was facilitated by a full time employee whose task it was to ensure that the Values were communicated throughout the entire organisation. Naturally all this received an orchestrated follow-up which is still ongoing. The introduction process was a success and, as a result, the Values have been given a fixed and unassailable position within the organisation. Integrity is universally perceived to be the most important Value. This was recently confirmed in Ton van Nimwegen's study into the Values within ABN AMRO, with which he obtained his PhD at Nyenrode University (Van Nimwegen, 2002).

Though the importance of the Values remains unchallenged, the need for a further step arose early in 2000. Various reasons can be given for this:

1. The perceived role of multinational companies has changed. The public sees them increasingly as extremely powerful institutions, particularly now that governments are tending to play a less central role. Some are critical of globalisation and the part played by companies in this process. Manifestations of this are visible in such protest actions as the 'Battle of Seattle'. In short: more and more responsibilities are being shifted towards the companies.
2. (Institutional) investors are showing a growing interest in the ethics of companies and want to know what these companies 'stand for'. Similar questions are also put by other stakeholders, particularly employees and customers.
3. The new strategic concept of ABN AMRO comprised more far-reaching decentralisation. Decentralisation and effective empowerment call for a compass that enables employees to define the playing field and make well-founded decisions.
4. The Values were formulated specifically for our staff and therefore had an internal orientation. In addition, they were increasingly felt to be rather abstract. It was

therefore necessary to give the Values 'hands and feet', particularly to provide guidance on relations with external parties.

In short, there was a need for a more vital reputation management instrument that would meet the demands of transparency and 'accountability'.

3.1 Developing the Business Principles

After some finger exercises in 1999 – where an inventory was made of the codes, statements and guidelines of numerous multinationals- the decision was taken in May 2000 to develop a set of Business Principles (hereinafter: BPs). The new Chairman of the Managing Board acted as the sponsor of this process that was led by Corporate Communications.

First of all, lengthy sessions were held with an external consultant (KPMG Integrity Consulting) to discuss both the content and the process-related aspects. The consultant was involved from start to finish. In the initial stages we leaned heavily on him, but as the process progressed he increasingly acted as a touchstone and adviser at a distance. This was partly in recognition of the importance that the process and output should steadily acquire ABN AMRO's 'own flavour'. That's not something a consultant can do, that's a task for the representatives of the company itself.

A sounding board group comprising some fifteen representatives of the highest management levels under the Managing Board was set up. This sounding board group formed an optimum cross-section of the three Strategic Business Units (SBUs) and contained four different nationalities. The role of the sounding board group was to supervise the process, give advice and act as a sparring partner. The sounding board group met four times during the process. In addition, specific subjects were discussed individually with a few of the members.

About 125 employees were interviewed between July and September 2000. The group was truly representative of the company in the sense that people of diverse levels of seniority, nationalities, job grades and organisational units were involved. Moreover, to secure the commitment of top management, all members of the Managing Board and virtually all SEVPs were interviewed. All these interviews were conducted 'face-to-face' with the consultant, except for a few which were held by telephone with staff outside the Netherlands. We naturally considered the option of interviewing even more people via e.g. intranet. This idea was rejected however because at a certain point of the interview process it was found that few new elements were emerging. In addition, we were worried that an intranet survey might elicit less focused reactions that would have more to do with the uncertainties surrounding the strategic reorientation than with the BPs.

Alongside these interviews a substantial group of employees were involved through targeted presentations. I, for instance, gave a presentation to some 40 human resources professionals from all over the world. The subsequent dialogue was particularly fruitful and yielded a wealth of relevant information.

On a limited scale we also asked a select number of trusted external parties to express their views on the BPs. This was naturally done with great care and circumspection to prevent the process being disturbed by unwanted publicity.

One extremely important part of the development process consisted of the 'leadership-workshops' for the top 250 people within the bank in the third quarter of 2001. In groups comprising a maximum of twenty people the core competences of leaders within the bank and other strategic critical success factors were discussed. The BPs formed part of these workshops. This was beneficial in two ways. First of all, the text of the BPs was sharpened as a result of the extremely in-depth discussions. What was even more important, however, was the fact that this process gave all top managers an active involvement in the development. Consequently, it was no longer a 'paper exercise' of the Managing Board but all top managers effectively became co-owners.

In October 2001 the Managing Board adopted the definite text of the BPs. In November, some 16 months after the process was started up, the BPs were launched by the Managing Board during a top management conference. ABN AMRO has thus acquired a document that builds on the Corporate Values, which remain as relevant and valid as ever, and outlines in clear terms what the bank stands for in its relations with its stakeholders.

3.2 The structure and implementation of the Business Principles

Before turning to the implementation, let me first make some remarks about the structure of the BPs.

One of the questions confronting us concerned the order in which the BPs should be presented to achieve optimum readability. Logically enough we initially tried to do this along the lines of the four Values. The result was not satisfactory, however. A classification according to stakeholder groups proved more effective. The employees were mentioned first. This was done to underline that the BPs are a personal statement from the people of ABN AMRO rather than a message from an impersonal legal entity. It was a matter of great importance to us that the staff would see themselves as the 'owners' of the BPs. This would greatly enhance their involvement with, and consequently the value of, the BPs.

A survey on the Values had shown us that not all employees were able to mention the four Values spontaneously. This made it clear to us that the BPs had to be formulated as concisely and powerfully as possible. On the other hand, the aspiration to meet the expectations of our external stakeholders meant that a range of different subjects had to be taken on board. We also wanted to meet international recommendations, such as the 'OECD guidelines for Multinational Enterprises'. We tried to get round this problem by formulating only ten BPs and listing these together in an easy-to-consult brochure. In a companion brochure we elaborated and clarified the content of the BPs in greater detail. Both brochures are always handed out in combination. This combination, which we believe to be unique, allows us to communicate a lot of information without losing sight of the core message. In addition, this structure reinforces the flexibility required to internalise the new insights arising from the dialogue with stakeholders. For we can now assimilate these new insights into the content of the BPs, without having to alter the

actual formulation of the BPs. The BPs are thus guaranteed a long life, while their interpretation and significance can evolve over time. It is hoped that in this way the structure and our intentions will enhance the integrity of our relations with these stakeholders.

We did not opt for implementation according to a 'big bang' scenario, but for a gradual process in which the line management carries major responsibilities. Nevertheless the BPs have been in the public domain since the end of 2001. So they have already become a reality for ABN AMRO as an organisation, even before all employees have actually become acquainted with them. The reasons for adopting this course are that we see the BPs as an evolution and not a revolution in our thinking and that it will lead to greater transparency as well as help to stimulate an ongoing dialogue.

The line managers are responsible for ensuring that all employees are informed of the BPs by the end of the second quarter of this year (2002). In the third quarter Corporate Communications will conduct a company-wide survey to establish how well line management has acquitted itself of its task. We will thus establish where the BPs have made a good landing and where additional action is required. In the fourth quarter the BPs will be incorporated into the performance contracts of top management for the following year. The assessment of the management's performance will then be partly based on the degree to which the business unit in question operates according to the BPs. This means that no-one can afford to ignore the BPs.

The Corporate Center will naturally undertake additional initiatives throughout the year and regular communication will take place to promote awareness of the BPs. The Risk Management and Compliance Departments will also work from their specific disciplines on the further embedment of the BPs in the organisation.

We see the assimilation of the BPs into our working practices as part of the aspiration of ABN AMRO to continue growing and improving. We are constantly learning with a view to achieving continuous enhancement in terms of staff development, customer satisfaction and, ultimately, shareholder reward. The process selected for implementing the BPs is designed to help us in this endeavour.

4. Integrity of the dialogue with stakeholders

Earlier I indicated that stakeholders are shifting more and more responsibilities in the direction of companies. It would appear that financial institutions are expected to meet even more exacting demands than other sectors. Some stakeholders assert that their central position in the economic and social environment makes banks duty bound to make (more) use of their influence in relation to certain issues. "Turn off the credit tap to company X, because of their activities in a disreputable country". "If it is true that you are involved in that project, I'm going to move my investment portfolio to a different bank". "That company may be acting within the limits of the law, but the way I see it ...". These are opinions that the bank is regularly confronted with. It's not just NGOs, but also customers, employees, shareholders and 'rating agencies' who ask these kinds of questions. How does ABN AMRO deal with such questions and what role do the BPs

play in this connection? In other words: how does ABN AMRO give practical significance to its ethical principles?

The bank strives for sustainable development and, in doing so, tries to strike the right balance between the 'Triple bottom line': 'People', 'Planet' and 'Profit'. As already indicated, (long-term) shareholder value is the ultimate aim in this connection. External stakeholders, however, frequently have a different aim, a different perspective, or a different perception of the responsibilities of ABN AMRO. Many NGOs, for instance, are 'single issue organisations' and, as such, have an exclusive focus on only one of the Ps instead of seeking to balance the three elements. It is within this field of tension that ABN AMRO must operate and endeavour to find optimum solutions. Let's not forget incidentally that in almost all cases the BPs are intuitively complied with. ABN AMRO is a company that operates according to high standards. The challenge in question concerns those areas where the answers are not 'black' or 'white'. Expressed in somewhat polarised terms, the field of tension comprises dilemmas with two extremes, namely: on the one hand, an exclusive focus on short-term profit and, on the other, an exclusive focus on a non-economic objective. This is illustrated in the diagram below:

[insert: dilemma schema]

It is important to establish that, given the identified discrepancies between these aims, we cannot possibly always offer all interested parties the result they are looking for. The core question for us in this connection is: 'what are the boundaries of our responsibilities?' Not all issues that are put forward by all stakeholders belong to the domain of our organisation. Very often, multinational companies, and particularly those operating in consumer markets, are used as a crow bar to put public issues on the agenda. What we want, however, is to obtain understanding for the standpoint that we ultimately adopt in relation to the various issues. And transparency and dialogue are essential to achieve this in our view. Within this process the BPs form the starting point of the dialogue. As the BPs are not laws but guidelines, they do not provide ready-made answers to each and every dilemma that the bank's people come up against. By entering into a dialogue with interested parties, we gain a clearer picture of the way they see a particular issue. This viewpoint is then weighed up with other opinions on the subject.

The clarification of the content of the BPs indicates that whenever a dilemma presents itself, the employee must ask himself the following questions:

- What is the business rationale?
- Will I be able to justify my actions against ABN AMRO rules and regulations, our Corporate Values and the Business Principles?
- What impact will the action have on the business, my team and me?
- Will my action maintain or strengthen the reputation of ABN AMRO?
- What will the impact be on ABN AMRO's audiences and stakeholders?

After weighing up these questions, a decision must be taken. That decision is an ABN AMRO decision. We -and not our stakeholders- are the ones who run our business and we therefore carry the responsibility. But this process means that we must be able to

account for our decisions and dare to explain these to anyone who shows an interest in our motives. In this way we will achieve the sustainable development that we envisage. The diagram below makes it clear that we see the aspiration to reach the top right quadrant as a step in an ongoing process. The sketched process, where all the different interests are weighed up, helps us to ensure that performance and reputation are always maximal.

[insert schema 3]

As noted in the introduction, integrity is the cornerstone of this philosophy. Integrity, ('wholeness'), is not a characteristic of the organisation as such; it is not an internal given. It is a 'wholeness' of the organisation in the complex of relationships (and tensions) with its stakeholders. ABN AMRO believes that integrity acquires relevance in the interaction, including the dialogue, with third parties. In this way we aim to reinforce the bank's reputation time and time again. This, therefore, is no mere 'PR exercise'. We must be able to account for all our actions: it is deeds, not words, that matter. The next section illustrates this point with a concrete example.

5. An example: the formulation of the forestry policy

In 2001 a number of NGOs published a report claiming that the involvement of Dutch banks in the financing of palm oil plantations in Indonesia made them co-responsible for the damage done to the tropical rainforest in that country. We felt this claim was rather rash and needed some qualification: matters such as the degree of directness of the financing, influence, local situation (legislation, conflicting interests) made this problem a highly complicated issue. Here too, the core question was: 'what are the boundaries of our responsibility?'. On the other hand, it was clear that the NGOs had raised an important issue. We were prepared to enter into an in-depth dialogue with them, but believed that palm oil plantations in Indonesia were actually only part of a wider problem. The underlying dilemma for us was to determine our position towards the worldwide forestry industry. We therefore proposed to the NGOs to broaden the scope and address this wider problem. This would be more complicated and more time-consuming but, if successful, also a good deal more valuable. We subsequently consulted with many of our customers from this industry, with our own commercial people, with international forestry experts and other interested parties. Two representatives of our head office were also sent to Indonesia to take stock of the situation. They spoke to local parties, including NGOs. Next we drew up a draft forestry policy and discussed this concept with the Dutch NGOs at a round table meeting. Some suggestions of the NGOs were incorporated into the text and only then did the bank determine its policy. The importance of this policy is that the result suits all parties involved and therefore contributes towards the attainment of a maximum performance and reputation.

I think this approach was innovative on two counts. First of all, we widened the scope of the subject of the dialogue. Secondly, we gave the NGOs an opportunity to provide input for the bank's policy. This process would have been impossible if the various parties had not trusted each other, if they had not recognised each other's integrity.

6. Conclusions and expectations

I have tried to make it clear that both an excellent performance and ditto reputation are the key pillars of value creation at ABN AMRO. Reputation management is therefore a top priority for every employee. Alongside the Corporate Values, the recently published BPs are an important instrument in this connection. Integrity awareness is deeply embedded in the DNA of the bank. It forms the basis for our performance and reputation. Highly relevant in this connection is the integrity ('wholeness') of the relationship with all stakeholders. It is not so much the ultimate decision of ABN AMRO that we want our stakeholders to agree with, but rather the process we go through before arriving at that decision. In this way, the bank is striving to secure a sustainable position in the economic and social environment.

Some claim that such developments are driven by 'public relations' motives. This is not justified in our view. We see this as a condition for survival. Or as 'The Banker' recently put it in an introductory editorial: "We believe that ethics will be the number one banking issue of the next few years". And I assure you that 'The Banker' is not the magazine for PR officers.

Literature

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