Rethinking Reputational Risk
By Anthony Fitzsimmons and Derek Atkins
Kogan Page

Fitzsimmons and Atkins present a series of case studies on a topic that has never been more important, writes Lord Owen.

This is an exceptional book to “read, mark, learn, and inwardly digest”, as the saying goes. A vehicle for teaching at every level, from business school student to chief executive, prime minister to new recruit into the civil service.

The range of case histories is short, concise but revelatory. I single out: BP’s Texas City explosion and Deepwater Horizon disaster; Tesco’s overstatement of profit; the rigging of the Libor interest rate; Volkswagen’s emissions cheating; and Mid Staffordshire NHS Foundation Trust. These should serve to whet the appetite for reading some of the original documents.

It is encouraging that Andrew Bailey, the then chief executive of the Bank of England’s Prudential Regulation Authority is quoted as saying in May 2016: “My assessment of recent history is that there has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture…” That Bailey is now head of the Financial Conduct Authority is a good sign that the deeper reasons for failures of good governance, risk management and disproportionate pay awards are not going to go unexamined.

It was wise of the authors to dismiss the ridiculing of Donald Rumsfeld’s “unknown unknowns” familiar terminology and to focus on “unknown knowns” – things that are known, often widely, within organisations but that leaders can’t find out. We have been aware of many of these factors for centuries; we just fail to accept scientific information. We go on spending millions on statistical models while virtually ignoring insights from the biological sciences.

British behaviour has an infinite number of variables and they are hard to assess by “yes” or “no” questions. Studies using attitude and awareness techniques developed in the late 1960s and I was fortunate to be involved commercially in this in the early 70s.

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Of course, using scales of plus five and minus five are more expensive but far more sensitive and capable of producing valuable behavioural models of far greater worth than the present limited designs.

British pride is still not facing up to the real lessons from BP under Lord Browne. Similarly for Tesco, to have had the same auditors for 28 years beggars belief. The Libor scandal has done great damage to the City of London. Mid Staffordshire NHS should never have been given the independence of being an NHS Foundation Trust and that decision was driven from pressure from No. 10.

Now, as the UK rightly seeks post Brexit to revive the spirit of the Merchant Adventurers, we have to take more risks but with better risk assessment. We have to find clever ways to penetrate world markets but within decision-making structures that are rooted in a culture that respects ethical values. We must compete with human spirit not animal spirits.

We are embarked on a new course since the EU referendum. Whatever way one voted, after Article 50 is invoked we must rally as a country to ensure success. This means that rethinking reputational risk, the title of this book, has never been more relevant or more important.

Rethinking Reputational Risk is available from www.koganpage.com/reputational-risk. Readers can receive a 20% discount with the code PBLRR20.

Lord David Owen is an Independent Social Democrat peer.