Building Positive Reputation and low risk for Financial Organizations Through Culture

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Abstract: In a continuously changing world environment, following financial crisis, pandemic crisis, wars, environmental disasters, along with the changes in the once "static" banking sector per-se, given the expansion of digital currencies, online financial services, expansion of digital offerings, the rise of open-banking, one should expect a substantial change to an organisation's reputation. Risks are emerging from everywhere and have as a result the increased focus from investors and regulators on how culture is formed in financial institutions. At the same time, culture (a quite diverse term that we will try in this paper to define and place in the banking sector frame), is considered to be a critical factor for banks to be able to respond effectively to all the changes and build long-lasting positive reputation and success. The ability to leverage the compliance program and embed ethics, top-down, contributes also significantly. Here, we will visit the notion of transformation, change culture in a digital era. In this paper, we will try to define positive reputation for banks in this new era and set the grounds for the importance of understanding the need to manage or/and change Culture, along with aligning risks and people.

Keywords: Reputation, Culture, Banks, Risk, Digital, Ethics, Transformation

1. Definition of Reputation

People have always been struggling for reputation in an effort to attain social status and mobility among others. For firms (Mailath and Samuelson, 2003), reputation can guarantee financial resources such as capital or loans, from banks and markets in general, but also revenue from sales to consumers and lower cost from better relations with suppliers.

The reputation of a company is dependent on many factors. Some of these are the quality of goods, the power of branding and communication, leadership and strategy, the goals and vision of the company, the ability to understand and meet customer needs, the perceived risks, and reliability (Money and Hillenbrand, 2006) and also include employees' performance, the impact of the media, and external partners' influence.

According to game theorists such as Sztompka, (2000) reputation is the perception, or better phrased, the opinion that other players have about the value of a "player" in a game.

Under the same lens, reputation is based on the record of a player's past actions and thus is an important signaling mechanism in a game, especially when Axelrod's (1984) shadow of the future, i.e., the possibility of repeating the game with the same players, is high.

Following Sztompka's perception of reputation based on past actions, Pizzorno (2004) states that the latter can actually be a record of acts worthy or not worthy of trust. The reputation of one person, like other intangible assets, is particularly valuable if and only if it has been recognized by other "important" persons.

Clearly one should agree with this view of Pizzorno, as it is evident that important factors, familiar faces, other means such as media, political figures, known authors, professors and scholars tend to coordinate the public and establish a reputation for a person or an organisation.

Practitioners also agree on the importance of reputation. In a survey conducted by Paul Dunay (2008) with a sample of financial institution's senior management executives, 53% of respondents agreed that reputation management is a high priority.

Another important finding from Dunay's research is that more than half of the respondents are not prepared to protect their corporate reputation in a possible crisis in the Internet.

Corporate reputation is a combined notion, in which internal and external insights make a unique combination and in the end they create the idea that others hold for the organisations but also the idea that the employees hold for the organisation. And as always it ends with competition perceive its reputation and dynamics (Harvey, Tourky, Knight, & Kitchen,2017).

2. Reputation and organizational Culture

In a continuously changing world environment, following financial crisis, pandemic crisis, wars, environmental disastersone should expect a substantial change to an organisation's reputation.

The acceptance of organisational ethics can influence reputation in many ways. For organisations, such as service organisations, the employees can be the face of the organisation.

Therefore, they can directly influence customer experience and perceptions of the particular organisation (Hatch & Schultz, 2003).

Accepting that, investing in creating a common employee' behaviour can be vital for an institution and its reputation (Harvey, Osman, & Tourky, 2022). A simple way of connecting reputation and culture is the following: "Culture describes how a company really does business, and reputation is how external stakeholders perceive it" Max Rudolph, 2014.

What needs to be understood, is that having a negative reputation can cost in many ways to an organisation. Direct financial costs, to human resource costs (indirect financial costs), meaning that the organisation is not attractive to an applicant and therefore it cannot build a dynamic and skilful workforce.

Successful culture and successful risk culture- which brings positive reputation – as successful strategy, should be top-down. Starting from the top management and leading to the middle, touching all levels and sides of the organisation. Consistency should also be a key factor (Rudolph, 2014).

Compliance, ethics and culture are all related. For all institutions, despite the particular sector, building a long-term success is greatly related to how well you've managed to define your ethics and compliance, both inside and outside the organizational structure, as stated by Sujatha Dwaraganath 2018.

Compliance provides a base for ethics and strong decision making. When these staff members are treated with respect, product line managers can learn best practices and how their unit fits in with the company strategy. A robust culture is what makes a competitive advantage for a company, making stronger, with greater adaptability in change and new circumstances. Especially, the recent years have shown that nothing should be taken for granted. Especially for the financial sector there hasn't been a single year for more than a decade now, with what we can call stability and normality.

And what do we mean by that? - Particular and well-placed risk practices, ethical code practice, in total compliance with governmental and international instructions, putting aside personal managerial conflicts, and egos, while having the top management along with all staff actively participating in these procedures at all times. As Dwaraganath (2018) describes it: A company's reputation ultimately depends on its long-term culture, its ability to leverage the compliance program and embed ethics in a top-down and bottom-up methodology. This patient approach provides a win-win for customers, employees, owners and other stakeholders.

It should be mentioned that since the start of the pandemic, the work culture in most if not in all sectors, has undergone great changes. Need for rapid adaptation to change, re-evaluation of values, needs and priorities, where ethical values such as team spirit, safety, productivity, employer's skills, had to be put in under a new prisma, in zero time. The companies to maintain a positive organizational culture and thus a positive internal and external reputation, need to avoid any risks related and overcome any obstacles that occur from factors such as lack of loyalty, of engagement and low performance.

3. Culture, Risk and the financial institutions

In a continuously changing world environment, following financial crisis, pandemic crisis, wars, environmental disasters, along with the changes in the once "static" banking sector per-se, given the expansion of digital currencies, online financial services, expansion digital offerings, the rise of open-banking, one should expect a substantial change to an organization's reputation. Also, the need for investing in innovation technologies, has by definition a risk attached.

The once traditional banking organizations now work side by side with online financial services providers and the pressure is becoming higher and higher (Forbes, 2021).

At the same time, the continuous changes and evolvements in technology, also bring (as one would expect) changes and adaptations in the regulatory systems across the financial sector, in different countries and strengthen the role of the national, European, international regulatory bodies. Normally, this results in different stakeholders becoming more and more interested and worried at the same time for the particular culture that is formed in the financial institutions.

According to a KPMG (2021) research, financial organizations are more and more motivated, if not pressured, to adapt a steady culture across all levels of the institution. If not, the risk becomes higher from clients and other stakeholders. In the minds of the customers, for example, banks are expected to deliver a culture journey that is consistent, steady and side by side with the current circumstances. This will influence the devotion of their customers and therefore their reputation.

The banks' culture journeys need a consistent and absorbed exertion from the top down. The organisations that recognize and assume the two sides of the coin approach, will be the banks that eventually will have more and more chances of strengthening and outshining.

In banks the issue of culture remains in the top management agenda as a priority. It is their responsibility along with the HR and Internal Communication, to create a common culture and bring along to all levels and employees of the organization. It should also be included as a high priority in the Risk strategy agenda.

4. Change culture and Transformation

In the midst of all the changes that have been already mentioned, and given that many others will come, in an unpredictable financial and non-static world, financial organizations are under a transformation period and program. The organisations' strategies are under the transformation prisma and plan, and all activities are synchronized.

However, the challenges and the at the same time, the very high benefits that transformation programs promise to have, result in strategies not being fully implemented (KPMG, 2021). In this context, risks are emerging from all sides, and therefore the regulators and all stakeholders start having an increased focus on how culture is shaped, embedded and managed in banking organizations. And this is because culture is clearly recognized as vital for organizations to respond to transformation and assure strategy success.

To manage culture in a transformation period, alignment is needed between people and risk, if not
While many organizations recognize the need to manage or change culture, they don't always know where to start or how to tackle the problem. It is crucial that organizations align people and risk, or change can be uneven and the impact fragmented (KPMG, 2021). "Organizational culture ensures that no matter what lens we view culture through we are aligning the employee experience with the risk strategy and shaping and managing the culture in line with this" (KPMG, 2021).

5. Digital ready Culture and Transformation – Change Management

The understanding of the importance of Culture for Transformation strategies, withing banking organizations, has been set by the above. Given the expansion of digital currencies, online financial services, expansion of digital offerings, the rise of open banking, one should expect a substantial change to an organisation's reputation, during this transformation period.

Digital technologies influence and bring internal and external culture change. There is a need, in the era of technology and transformation to operate in an increasingly volatile environment, as well as empower new ways of working and putting employee prospects so that they can meet the rhythms of technology (Alvesson and Sveningsson 2015; Dawson 2003).

In order to approach the digital journey effectively, organisations need to understand how they are affected and where their own transformation journey starts: Customized transformation means finding those methods and tools that suit the firm and that enable them to make the appropriate transformative (Schneider and Kokshagina, 2021).

Digital leadership should be also put in the scope of the discussion. Digital leaders gradually increase the space of their business actions. They concurrently contemplate their core business's digital transformation and the examination of new digital corporate openings.

Chief digital officers are frequently regarded as orchestrators and enablers (Schneider and Kokshagina, 2021). As orchestrators, they need to negotiate with the existing businesses units and contract with structural change on their everyday routine. As enablers, it is evident what digital transformation creates for the current business teams and they have to find win-win situations for everyone (Schneider and Kokshagina, 2021).

When we talk about technology implementation and dispersal, digital technologies are no different from other technologies and it is specific to the technology and the context. For example, to improve the use of AI, building trust by establishing a sense of fairness, transparency, and accountability as well as a accurate viewpoint on the technology's competences have arisen as vital to stand-in the technology implementation (Schneider and Kokshagina, 2021).

What we generally accept here, and it can set the ground for future in depth research, is that technologies, and more in particular, digital technologies are the driving force behind digital culture change.

6. Conclusion

The ongoing crisis worldwide and in particular, in the financial sector during the recent years, has had implications that have changed the whole market arena.

The workplace will not be the same again and the services provided by the banks, have also entered a new level. The direct impact on organizational culture is already evident, and the necessary changes, are already taking place. Yet, the final effective model is still to be found.

In this context, the idea or question remains, about whether remote or hybrid personnel lose some of the social adhesive that is vital to a common perception of culture?

The focus for financial services organizations now is to be intentional about establishing new touchpoints with employees, continue inclusive communication, encouraging diverse perspectives and reimagining and experimenting with new ways of keeping the culture alive for everyone no matter where they are working (KPMG, 2021).

Digital culture change is also challenged and influenced by the transformation era in which most financial institutions find themselves nowadays. ‘”A disrupted, constantly changing environment and an increased importance as well as intensified application of digital technologies” (KPMG, 2021).

In periods of continuous changes and transformation, the ability to leverage the compliance program and embed ethics, top-down, contributes also significantly in the culture change of an organization, in this digital era.

In this paper, we try to define positive reputation for banks in this new era and set the grounds for the importance of understanding the need to manage or/and change culture, along with aligning risks and people, during transformation times and digitization.

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