Why being ruthless about reputation matters

By **Marc Roijakkers & Martin Kõdar** on 3 October 2018

"Lose money and I can forgive you, but lose even a shred of reputation and I will be ruthless." Those were the words of Warren Buffett when he stepped in as interim chairman at Salomon Brothers, the U.S. investment bank that was hit by a trading scandal in 1991 that nearly sank the firm and tarnished Wall Street's reputation.

Financial services operate primarily on integrity and trust, so any loss of reputation can have a hugely detrimental impact on individual companies and the industry at large. It is no different for private equity than any other part of the financial sector, and it's the same now as it was almost three decades ago. Indeed, reputational risks today stem from a huge range of sources – not only financial misconduct, but also environmental damage, sexual harassment or simply flagrant disregard for transparency.

Acting with integrity is at the heart of Invest Europe's Code of Conduct, and it's a fundamental building block of trust between fund managers and investors – as well as portfolio companies, policymakers and the general public. Of course, private equity has to operate within the confines of regulation, such as the Alternative Investment Fund Managers Directive, and detailed agreements between limited partners and general partners. But no matter how strict the rules, trust – based on a track record of clarity, reliability, honesty and a high standard of both personal and professional behaviour – is essential.

Like many investors across Europe, Blue Sky Group – a Dutch pension fund administrator, managing €22 billion for around 100,000 scheme participants – aims to maintain the highest standards of integrity before its clients, and demands that all employees and external managers abide by the same ethos. By the same token, BaltCap, a private equity firm focused on the Baltic States, has its own Code of Responsible Behaviour, which it expects all its portfolio companies to adhere to.

Being on the same page is essential. Private equity portfolio companies employ some eight million people across Europe and often play significant roles in the local and international economy. Any misconduct at a portfolio company will have a negative impact on the general partner, as well as the limited partner, who is trustee for a large number of savers and therefore accountable for everything decision in their names.

As individual investors and managers we can make our own rules. We can incorporate as much as possible into legal contracts and monitor those agreements closely. However, we can't govern or influence the whole industry alone. That's why it is essential that organizations like Invest Europe stand up for the promotion of integrity and transparency within private equity, and champion private investment in general. Collective action among Invest Europe members is crucial for the development of best practice, which in turn is a very powerful tool for fostering trust.

Few would dispute that private equity's reputation has been built on making money for investors, thanks in large part to smart investment and operational skills. By focusing on integrity, fund managers can ensure that reputation is beyond reproach.

The blog is published on Invest Europe website: https://www.investeurope.eu/news-opinion/opinion/blog/2018/why-being-ruthless-about-reputation-matters/