The turning point for many business downfalls is determined at the moment of their greatest success, as business strategy literature shows. Teodoro Cocca writes in his article for finews.first that every bank manager can draw fundamental lessons from the dramatic fall of the once high-flying Credit Suisse.

Like UBS over a decade ago, Credit Suisse laid the foundations for its near collapse during a phase when the bank appeared to be performing particularly well. In 2006, the best financial year in the company's history, UBS again sharply increased risks on its balance sheet. Shortly thereafter, this turned out to be a fatal miscalculation, born out of a phase of overconfidence and excessive ambition.

Compared to the subsequent catharsis UBS had to endure, Credit Suisse management seemed
to have done a lot right before and after the 2008 global financial crisis. Strengthened by its position as the leading bank in Switzerland at the time, Credit Suisse did not feel the need to make any decisive adjustments to its strategy. The business was going very well while other competitors were having problems.

«As a successful manager, do not fall into complacency!»

In this phase, Credit Suisse made its last big strategic mistake by incorrectly assessing the European trend toward a significant reduction in the capital intensity of investment banking. Why this did not happen was psychologically based on the arrogance-driven conviction of the bank’s top managers that a strategic adjustment was unnecessary.

The ever-lurking danger of overestimating oneself teaches all bankers that current success is by no means a reason not to constantly question one’s strategy. Paradoxically, the greater the current success, the greater the danger of strategic blindness. As the literature on business strategy shows, the turning point for many business downfalls (including non-financial sectors) is determined at the moment of greatest success. As a successful manager, do not fall into complacency but, instead, always strive for critical reflection of your actions.

Error analysis, which is conducted in the case of large losses or write-offs, is part of the usual procedure. Particularly when a bank must digest several large losses within a short period, top management and, above all, the board of directors will have to deal with the question of whether these are true one-off events or if there is a systemic and, thereby, a strategic element.

«The board of directors should have recognized the deeply strategic nature of these losses»

Credit Suisse insisted on strengthening its risk culture after the recent losses and much litigation and identified as the overarching cause of the losses. There is certainly nothing wrong with this, per se. But the enormous focus on risk culture, when looked at more deeply, exposes the view that problems were based on individual cases where more risk-aware employees would have acted differently.
While true in an operational sense, it implicitly shifts the cause of error downwards rather than upwards in the hierarchy because it ignores the strategic dimension whether intentional or not. When a bank takes on individual risk positions dangerously related to the amount of equity, the question is whether the bank is in the right business areas, which is a strategic question.

The board of directors, in particular, should have recognized the deeply strategic nature of these losses. Losses or failures must relentlessly lead to the right, strategic questions. That is what must be learned from this.

«The lack of shareholder value orientation from the old structure is also visible in the new Credit Suisse»

This leads to the following central management question: who should strategy serve when different divisions or business units are managed side by side on an equal footing? In a classic large bank, typically organized as a universal bank with many different business units, this question is of particular importance. In this context, it is remarkable how investment banking repeatedly succeeds in talking up its value-adding and indispensable contribution to serving major clients.

But when it comes to adding shareholder value, it is usually very quiet. Investment banking seems to be an important and highly respected business segment on its own, but hardly for the other banking units. However, it is part of modern management practice to ask in-depth questions about synergy effects between different units and, if necessary, measure them. If none of this helps, then the tried and true concept of shareholder value can be resorted to about who creates long-term value for shareholders.

A Credit Suisse that was truly focused on shareholder value would have had a very different business structure a long time ago. This applies to quite a few other banks as well. Incidentally, the lack of shareholder value orientation from the old structure is also visible in the «new Credit Suisse,» with the prospect of an independent investment banking unit shrugged off by shareholders and other business units.

«It could have been done much earlier and from a position of strength»
No more talk of eliminating synergies in serving major customers. This is a late, disheartening confession from the investment bankers, that they are and always have been a very independent bank within the bank. That the very investment bankers, the preachers of shareholder value, have undermined the management of the bank according to this is a sinful betrayal of the «biblical» principles in the world of investing.

The strategic steps that Credit Suisse announced on October 27 this year are an outright revelation of its transgressions. All the plans developed after intense and months-long wrangling have one thing in common: it could have been done much earlier and from a position of strength. This would very likely have even added real value for shareholders. But it was only under extreme pressure that the bank was able to bring itself to take the measures that had been strategically demanded long before.

From a management perspective, it can be worthwhile for every banker to conduct a thought experiment in a crisis to consider what would ultimately be necessary if the situation were to escalate completely. This can help determine which seemingly unavoidable decisions have to be made early and at least do so from a relative position of strength. The pressure became unbearably great at the moment when the international private bank and Swiss business were swept up in a reputational maelstrom and found themselves under threat.

«The current situation can be relentlessly described as what it is today: a restructuring case»

Structuring a company on a principle so that non-essential business units threaten the core business is tantamount to ignoring simple, strategic principles. It may seem trivial but interestingly, both major Swiss banks got themselves into extreme distress precisely by ignoring such trivialities. In both cases, it was losses in non-core businesses that sent the broader group into a tailspin.

In the case of Credit Suisse, in particular, the time dimension should also be emphasized. The events of the past few years were characterized by a long period of, more or less, inaction as the bank slid into ever greater difficulties. The longer a decline lasts in the particularly sensitive banking business, the more the management loses its ability to act. The current situation with Credit Suisse can be relentlessly described as what it is today: a restructuring case. The capital increase under such unfavorable conditions is the price to pay for the lack of entrepreneurial
capacity to act.

Probably the most important lesson for all bank managers with leadership responsibilities is the restructuring of Credit Suisse was not simply the result of external, unfortunate circumstances that unexpectedly and suddenly befell the company. No, it is quite the opposite: a series of negative events occurred, extending over a longer period, from which repeatedly wrong or, at least, non-essential conclusions were drawn. In other words, a series of management mistakes at the executive level and strategic misjudgments by the board of directors.

«This is the most essential lesson that every banker should take away from the Credit Suisse case»

One way of reading the situation is ominous because the events surrounding Credit Suisse can befall any company and its decision-makers. But another way to see it as reassuring is to recognize the management mistakes because it shows in hindsight that the bank could be in a very different position today if important decisions had been made earlier or differently.

This is the most essential lesson that every banker should take away from the Credit Suisse case. Managers with leadership responsibilities can achieve a great deal if they align their tasks with recognized leadership principles and act prudently, courageously, and consistently in difficult moments. This is, after all, the manager's «raison d'être».

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Teodoro Cocca: «Credit Suisse – Essential Lessons For All Bankers»

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