The Skandia Scandal: Whose Fault?

By Henrich Greve , INSEAD Professor of Entrepreneurship

Reputations are valuable and easily tarnished even by association: a little care and attention can help.

Skandia, an asset management firm owned by insurance group, Old Mutual, has received a lot of attention recently after reversing its decision to transfer a sizable chunk of funds (US$1 billion) from its regular fund manager, Invesco to a new company owned by Invesco's former manager, Neil Woodford.

Fund owners had protested the move, insisting the funds could not be transferred across management companies without their agreement. While Skandia's attempts to move the funds make sense given Mr Woodford's star status and his previous success at Invesco, the customers' protests at having property moved between management without any say, is understandable, and should have come as no surprise to Skandia. The fund manager is familiar with customer reactions to reputation problems.

It used to be a Swedish company, owned by a Swedish insurance firm also called Skandia. The takeover of Skandia by Old Mutual in 2005 followed a period of customer protest and asset withdrawals significantly weakening the company. The protests were all associated with a series of incidents related to the mother company Skandia Insurance.

The first, in 2002, involved a subsidiary firm which was sold in a way that appeared to favour, Skandia, over other owners.

The second was a small scandal over the pay allocated to the company's top managers. And the third involved press revelations that close relatives of Skandia's top management were given rental apartments at very low prices; a problem that was fully investigated during 2003. The press started referring to it as the Skandia scandal, and customers started withdrawing money from mutual funds.

In an article in ***Administrative Science Quarterly***, Stefan Jonsson, Professor in Ethics at Uppsala University, Takako Fujiwara-Greve from Keio University and I studied how the effect of this scandal spread, with particular focus on one important detail: the mutual fund management company Skandia did nothing wrong. All three scandals were associated with the insurance firm that owned it. In spite of that, customers punished Skandia fund management. In fact, they even punished other fund management companies owned by (innocent) insurance companies, as well as fund management companies with owner companies that resembled Skandia in some way.

The punishment for behaving in ways that customers disliked spread wide, to include companies with no connection to the scandal. The ill-feeling was not short-lived, and Skandia took three years to recover.

As well as looking at how the scandal spread, we looked at how customers withdrew and then came back to Skandia during and after the scandal. The results (available **here**) found that each mention of the scandal caused customers to withdraw money from the firm. So, either more scandal mentions meant that more people knew about it, or more scandal mentions meant that more people lost patience with Skandia.

Skandia is a good example of something we already know: reputation effects on firms are powerful, and often overlooked. To the extent that, even a firm that should have known better, was once bitten, but isn't yet twice shy.

[**Jonsson, S., Greve, H. R., & Fujiwara-Greve, T. 2009. Undeserved loss: The spread of legitimacy loss to innocent organizations in response to reported deviance. *Administrative Science Quarterly*, 56(June): 195-228.**]

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