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The Failure of Risk Management in the Financial Industry: The Organization in the Mind of Financial Leaders

“The Industry let the growth and complexity in the new instruments outstrip their economic and social utility as well as the operational capacity to manage them.”

Lloyd Blankfein, CEO Goldman Sachs
Goldman Chief Admits Banks Lost Control
Financial Times, September 9th, 2009

For those interested in the organizational and psychodynamic aspects of the 2008 financial crisis, Blankfein’s statement merits close attention. One year after the collapse of Lehman Brothers, Blankfein suggests that the financial industry as a whole was severely compromised by organizations that had neither an appropriate appreciation of the complexity of investment risk, nor the operational rigor to manage it. What is not explicit in Blankfein’s comment, that which is left for us to interpret, is an understanding of what motivated the leadership of these organizations to ignore both the irrational quality of their pursuit and the limitations of their organizations. What would motivate those at the top of their industry to ‘let’ themselves take risks that led to such an extraordinary failure? Greed and power have served as quick answers and have fueled a populist backlash against the financial industry. But a more descriptive analysis of the systemic dysfunction and leadership of these financial institutions is called for.

Two cases are borrowed from the author’s work consulting to Wall Street over the past decade (banks, hedge funds, endowments and insurers) to illustrate a structural deficiency that has become endemic to this industry. The issue presents in three forms: 1.) The leadership of many banks and funds is, for reasons that will be described, psychologically vulnerable to fantasies that distract them from the reality of the markets in which they work; 2.) Financial institutions are often led, managed and resourced in a way that compromises the necessary integration among complementary functions. The disciplined interchange between the investment and control (operations/administration) functions that is essential to appropriately understand and manage the complexity of contemporary investment risk is undermined by a systemic conflict between these areas. This is a conflict that is either exacerbated or controlled by organizational culture. 3.) Management of risk is generally appointed to a specific role or process (increasingly to software-based algorithms) rather than being contained by developing a culture that allows all organizational members who participate in the system of investing to participate.

Given the destructive potential of these issues for the financial industry and well beyond, how do we understand the pervasiveness of these organizational failures? What insights can we offer about how the role of leader in financial organizations plays on the psychology of those who take the role? And which models are available as object lessons for how this organizational dynamic may be better managed to produce more resilient

organizations? These are questions grappled with here. Both the cases offered in this review are of large money management firms, but there are other examples cited based on turmoil in the banking and insurance industries. In all cases, the analysis applies for any business in which profit is realized purely from the leverage of capital.

What Can Money Tell Us About Desire?

An investment professional's work plays at the margin between hard analysis and magic. Good investors anchor their bets on reasoned judgments based in research and modeling, but in all cases they are hoping that their thesis predicts events in the future. When successful, their investments render profits and the analyst feels the thrill of turning an idea into money. The emotional stimulation of this practice is played down in the industry, but in less guarded moments the thrill that analysts realize from their practice shows itself. As one successful portfolio manager told me, "We turn straw into gold." Evoking the magical dwarf and fairy tales reveals the excited pleasure that comes when one is able to 'create' money; like the childhood fantasy of finding treasure and from it gaining all the associated rewards of power, acquisition and potential. And, like the story of Rumpelstiltskin, the limits of desire dissolve further with each successful transformation of something with no monetary value (an idea) into greater wealth. The acquisition of money is different from that of other objects because money is abstract and can mutate endlessly into other forms (objects, services, influence, power). Its accumulation destabilizes our understanding of what we need by stimulating the potentially limitless quality of our appetite. Most importantly, money is used to create more money and no matter how vast the profit, our appetite for more expands to accommodate. In his essay "Money Mad," Adam Phillips describes money as that which,

Always promises something other than itself—it is only, as we say, worth what it can buy—it seems to protect us, as promises do, from the fear of there being nothing and no one that we want. Nothing around that makes appetite—or its derivatives, faith, hope, curiosity—worth having. Not desiring is far more daunting a prospect than the availability of what one desires.

For those in the financial world for whom the numbers describing profit drift toward abstraction, where many investment leaders realize personal wealth that overwhelms their ability to spend it, money can become something else: a fetish that defies limits and multiplies desire. Compared to the Kleinian description of voracious greed aimed at complete possession, Phillips suggests that money's tendency to perpetuate the fantasy of infinite appetite—without any particular object toward which it is aimed-- may be even more disruptive than greed to the ability to form and maintain productive relationships, including one's relationship to reality.

As an example, Charles Prince III's now infamous comment,

"When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing."

(Kaufman, 2007)

is rife with suggestions that the leader of one of the world's largest financial institutions was inexplicably cavalier about risks that his company was taking—"things will get complicated". His metaphor evokes the children's "musical chairs" game in which participants are thrilled by the complete lack of control of knowing when the music will stop and accept that all participants but one will be done-in by the surprise. But how could the CEO of such an institution tolerate participation in this game, unless he believed that he was, as Phillips suggests, 'protected' by the magical promises inherent in great wealth?

In contrast, the leader of an investment group (the second case offered here) was able to guide his firm through the same crisis with no significant loss. We can acknowledge the greater degrees of complexity involved in leading an enormous global financial institution. But no matter the size of the institution, the chief executive's mandate is always that he uses his authority to enforce the containment of risk: that he has an appropriate and realistic fear about the potential threats to his enterprise. In Prince's case, his sense of accountability became confused as he felt compelled to move to outside forces (the "music" in his terms) for fear of missing out on what he acknowledges as short-term gains. The leader of the investment group, on the other hand, was able to maintain a clearer sense of his accountability by recognizing that the fear of missing out on a rally is "greed, not fear".

The Investment Organization in the Mind

If those leading financial institutions are vulnerable to fantasies that soothe their fears of limitation and absence, then an attunement to limitation—an important guide for any leader-- is inherently antagonistic. Distinguishing between the different types of fear is instructive. The healthy fear of loss should fuel risk aversion, while the fear of missing out on a perceived opportunity fuels the desire for more; a desire that clouds our attention to risk. We could anticipate that the leaders who suffer from the latter type of fear would suffer from a distorted psychic representation of the organization; that the organization in the mind of these leaders would reflect both the unconscious belief about the power of money and the primitive aversion to limitation. More than an imbalance, there would be a conflict between the way that the investing (profit making) and control (cost) entities are represented in the minds of these leaders. To confirm this hypothesis, we should look for evidence of degraded structures, authority and accountability in the control functions of these firms, while investment functions and roles are subject to forms of collective idealization.

The structure of the investment organization has always depended on the interplay between the minority who make the investments (analysts, traders) and the distinctly less powerful though larger population that sees to it that investments are managed appropriately. With the increased complexity of the financial world, the need for greater transparency and collaboration between these functions has only become more

pronounced. With the more interrelated markets (for instance, housing and securities) and investment instruments like derivatives, swaps and SIVs, investment risk can no longer be fully contained only by those analyzing and making the investments. Given the bespoke quality and lack of transparency inherent in some of these products, those working in the control functions of the financial industry (valuation, technology, settlement, accounting, legal, tax, etc.) must keep pace with the increasingly exotic nature of the investments if the risks that they pose are to be managed.

Blankfein's (Jenkins, 2009) critique of his industry states plainly that this level of collaboration has not been successful. These businesses found themselves in crisis, in part, because their capacity for control through operational rigor did not keep pace with the demands made by the investments. This is all the more puzzling given that the imbalance cannot be due to a lack of financial resources at the disposal of these companies nor can it be blamed on a shortage of intellectual or technical ability that could have been applied. At a superficial level, the diminished controls are due to neglect. At a deeper level, the inability of some leaders to attend to the full organization is evidence of a more hostile enactment against those entities that demands attention to reality testing and control. Rather than allowing realities (including their embodiment in organizational functions) to modify the experience of pleasure, they are ignored or denigrated in an effort to keep alive an unfettered relationship with desire. A flagrant example of this is the starkly irrational disregard for risk in the case of AIG. The company sold hundreds of billions of dollars of insurance in the form of credit default swaps, without any attention—in fact an active disregard for—the necessary capital reserves should calls for the insurance come due (Taibbi, 2009).

My own experience both in financial organizations that have successfully managed the balance of risk and reward and those that have not, supports this hypothesis and suggests that there are specific challenges that are too often underestimated by financial leaders. The lack of personal insight into the effects of money on one's unconscious life is an obvious issue that can be addressed by leaders but too often is not. At the more concrete level of organizational structures and processes, the necessary level of collaboration calls on leaders to be mindful of several things.

- Those working in financial operations must be motivated and offered resources to tolerate a process of constant adaptation if they are to be able to process new forms of investment in a way that mitigates risk for the organization.
- Just as technology and models change frequently for analysts, so do the processes and systems within the non-investment functions antique quickly, calling for fresh resources to upgrade.
- The asymmetrical power relationship between analyst and control functions is challenging to manage. Control functions must be provided with sufficient authority and respect so that they may reasonably be expected to raise issues with investment professionals that may influence their practices.

- Tolerance for mistakes in the investment and non-investment areas is also asymmetrical. An investor who profits on every investment is guilty of being overly conservative and not taking enough risk. For those in operations, even minor mistakes are often conflated with failure due to their potential to only erode profit. If the internal response to mistakes is not appropriately managed within non-investment functions, those working there will quickly develop a culture that is antithetical to learning and change.

When these issues are not appropriately addressed, investment organizations are susceptible to being inadequately developed. The result then replicates within the company the compromised organization as held in the mind of the leader. Two cultures form, the culture of the analyst in which investor professionals are overly credited with the complete success of the firm and are not asked to consider their part in a larger system; and the culture of control, in which employees take on a passive stance vis-à-vis the counterparts who invest. At its worst, the culture of ‘back office’ fosters a demeaned control environment with resulting high turnover, diminished morale and employees passively retreating from their roles. It’s an organizational schism that allows the investment leader to perpetuate the expansion of desire by unconsciously degrading internal functions that might otherwise keep important limits in mind.

The following case describes a well-reputed investment group that found itself surprised and unprepared for the turmoil produced during the credit crisis of 2008. My involvement with the firm followed on the heels of their beginning a major restructuring of the operation and risk functions¹.

Cummings Capital

Coming from a large hedge fund in the Midwest, Roy took over as CEO for Cummings Capital following the departure the previous leader, David, who held the position for just under two decades. During David’s tenure, Cummings had multiplied its assets under management many times, leaving the firm with a sterling reputation in the industry.

Believing that he had time to get settled before he made any significant changes to the firm’s strategy, Roy immersed himself in better understanding the firm’s portfolio of investments. The day-to-day work progressed well but Roy’s research into the investments left him with a growing sense of unease. Like many funds, Cummings had realized strong returns by leveraging its assets. Liquidity was also challenged by a large number of illiquid investments in other funds. All of this combined to create a situation in which if Cummings needed capital, there was little that could be quickly liquidated. Added to this, Roy became increasingly unsettled by the difficulty he had getting clear data about the state of

¹ The names of organizations and individuals in the both cases described here have been changed to protect confidentiality.

the portfolio. The risk team working under him was slow to produce the information that he requested and much of what he reviewed came to him in a series of antiquated and confusing reports. As Roy hoped to gain confidence from meetings with his chief risk officer, he found instead that his concerns about the funds' lack of liquidity only escalated. The Risk Officer seemed strangely detached and less than fully responsive to Roy's concerns.

Roy began to move certain positions out of the Cummings portfolio and slowly invest in assets that offered greater liquidity should it be needed. Then in September of that year, Lehman Brothers collapsed and Roy lost the time that he had counted on to shift the risk profile of his portfolio. Within a month, a significant portion of the Cummings AUM had disappeared. Assets in the portfolio shrank and several funds that had been invested in either lost money or folded.

Working to salvage the fund, Roy immersed himself in his organization. He continued to have difficulty gaining clear information about the status of investments and risk profiles. The difficulty was exacerbated by an operations function that was working with inappropriate and antiquated systems that were challenged when it came to tracking the complexity of the firm's portfolio at the speed that was necessary to keep up with shifts in the markets. The managers in this area were stressed and often ineffective at getting better results from a staff that seemed largely disassociated from the sense of crisis that was pervasive among the analysts. Some in the investing teams damned the people working in operations and operational staff resisted changing their methods. When questioned about why a process or report was being executed in a way that rendered sub-par results, operational managers and staff would often resist a deeper involvement in problem solving, displaying a vague confusion about why past processes would not suffice to meet future needs.

Following the period of crisis and with a restructuring of the operations already underway, I was hired by Roy to conduct an organizational assessment. In particular, he wanted insight into the causes for what he perceived as an operational group that was dangerously uninterested in coordinating to produce the level of reporting and feedback that the investment professionals needed to manage investment risk. After interviewing nearly a third of the company I offered the following insight.

During the years under the previous leadership, David had expertly managed the investing group's success. His directives to the investors were clear and when they were successful he rewarded them handsomely. He was not tyrannical, but when a portfolio manager failed to meet the benchmarks for success, he was replaced. The analysts accepted this arrangement and admired their leader's firm control and clear accountability. But his leadership of Cummings as a resilient business was more qualified. The state of the organization following his departure revealed that the culture at Cummings became too singularly focused on

the success and power of its investment leaders. In this environment, responsibility for managing investment risk was neither sufficiently shared throughout the organization nor was it appropriately monitored by the firm's Board. The leader of the previous operations group (COO) was universally recognized as ineffective and had never successfully advocated for his people. As a result, systems and technology fell far behind the state-of-the-art, no management or talent development was offered and process improvement was only initiated following operational failures and the occasional harsh feedback from the investment function. Change was generally reactive, slow and insufficient.

The control functions at Cummings deteriorated because those working there had accepted the heroic, nearly infallible image of the previous CEO. Unwittingly, David had promoted this attitude, by fully authorizing only those on the investment side and simultaneously engendering a passive complacency within operations. His unspoken pact was that if they would not create management and organizational development challenges for him, then he would ask the minimum of them in return. Over time, the control function became inadequate to its task and the attitude of the investment teams toward those processing their investments ranged from indifferent to disdainful.

From Roy's point of view, there were issues with some of the investments that he inherited, but, more importantly, the complexity of the overall portfolio, the interplay between certain assets held could not be fully appreciated and adjusted given the information provided by Cumming's control functions.

Diminished Authority and Control

In the Cummings' case, the leader's unconscious hostility toward the recognition of critical limits was made manifest in the organization he led. By promoting an idealization of the role of investor (he-who-would-always-bring-in-more-money), by fostering a culture of passivity and deterioration within the control functions, by allowing the investing functions to perpetuate a contemptuous devaluation of their colleagues in operations and by keeping in place a weak COO who was never given the authority to do what the organization needed of him. Contrary to what one might imagine, the atmosphere for those in operations during David's tenure was not felt to be oppressive. In fact, at the time of my interviews, people were terrifically nostalgic about those days. Those in operations (and, interestingly, never those in the investing function) described the company as feeling like a 'family'. The analogy carries positive associations of comfort, security and protection but when these qualities reach an extreme by evoking 'family', it is rarely good for a business. Businesses count on employees having sufficient commitment and protection to allow them to focus on their work, but they also must tolerate straight-talk, challenge, conflict, change, competition, personal risk and prioritizing the mission of the organization over the feeling of comfort. A business like Cummings need not promote an ethic of ruthlessness to succeed, but it must have a leader

who appreciates the need to exert his authority for the good of the firm. It needs someone who challenges the workforce, who sets high expectations for learning and improvement and who will move a person out of a role or out of the company when the circumstances call for it. The fact that David proved so competent at driving his authority among the investors but withheld this same degree of influence on operations suggests that his negligence was, at some level motivated, rather than due to a lack of ability or will.

If we're tempted to think of Cummings as an anomaly we only need consider the stories of the multi-billion euro losses blamed on SocGen trader Jerome Kerviel in 2008 (Clark, 2008), the collapse of Barings Bank following the rogue trading of Nick Leeson (Stevenson, 1995) the demise of Amaranth investors following Brian Hunter's six billion dollar loss on natural gas investments (Anderson, 2006) or Joseph Cassano who sold nearly half a trillion dollars worth of Credit Default Swaps (CDS) for AIG (Taibbi, 2009) without that company holding even a fraction of that amount on hand. In each case, subsequent investigations proved that these 'rogue' investors were working within systems that either ignored or failed to have in place the appropriate controls to monitor risk or, in some cases, even to adequately monitor trading activity. In each case, the potential of the investing function was idealized and those managing control were denied the necessary authority and resources they needed to fulfill their role.

As further evidence of the hostile enactment against limitation, in several cases (Cassano at AIG being the most recent) there were incidents in which brave internal watchdogs attempted to raise concerns about investing practices and were angrily shut-down by the more powerful above them (Taibbi, 2009).

Leadership Practice in an Integrated Financial Organization

How then does the leader of such an organization avoid the dangerous organizational pitfalls described above? Which practices offer a better prognosis and the potential for these leaders to navigate the intense psychological pressures they come under when serving in this role? The following case describes a leader who has successfully shepherded his firm through the recent financial upheavals by instilling in employees his own awareness that attention to the potential for loss deserves as much attention as the focus on reaping rewards.

His advantage to date is due to a disciplined adherence to three principles:

- An investor who does not monitor his own potential for greed will never appropriately attend to the inherent risks of his investment. Setting a personal or organizational standard for the greatest profit possible only incites taking counterproductive risks when investing.
- Long-term orientation. Striving for short-term gains fuels the sort of speculative investment that ignores important risks.
- Rather than focus on profit, emphasize excellence in execution. This can serve as a cultural standard for the entire organization and help ensure that all functions meet expectations.

Frost Enterprise

Nat served as CEO of Frost Enterprise since its inception. Though he started with relatively modest assets under management, Nat achieved steady returns by sticking to an investment strategy that prioritized excellence in execution, managing risk as aggressively as he managed returns and holding all of his analysts to a standard of absolute intellectual integrity when it came to betting on various assets. As an organizational leader, Nat took it as a given that those supporting the investment functions needed to meet the same level of performance that he demanded from his investment analysts. He hired Sal, the COO, to whom he gave complete authority over operations and who had an equal seat among the senior partners in the investment area. Sal's job was to ensure that his capacity for control kept pace with the growing size and complexity of AUM.

Over time, Nat's patience and discipline resulted in his firm growing and attracting capital from those who were impressed by the Frost Enterprise's ability to avoid the financial landmines that diminished other investment groups. I was asked to consult to the firm to help rethink organizational design and processes so as to better address the company's expansion.

One of my first impressions of the firm was of the consistency of the organizational culture. The values made explicit by Nat's attitude toward investing were known throughout the organization. A junior accountant would be able to speak to what Nat prioritized and which behaviors he would not abide. Mutual respect was not only mouthed as an organizational priority, it was demonstrated daily in the interactions among people and the environments in which they worked. For example, in contrast to my experience in most firms where the operational areas are decidedly less well appointed and resourced than the floors and rooms occupied by the investors, Frost's operational areas mirrored the same comforts enjoyed by those in its investing function. While no one held any illusion that the control functions held equal power to the investors, they were handsomely paid and given voice in company decisions.

While Frost passed through the credit crisis relatively unscathed, the continued growth of the firm and the greater complexity of the investment opportunities (Derivatives, CDS, structured products) stressed the organization. Many more hires were made in the operational area and the demands on these employees grew exponentially as they were required to work through and offer feedback to the analysts on the intricacies of the portfolio. During this time, friction between investing and operations emerged in a more serious fashion than heretofore, as those in operations--living up to the ethos of sharing in the monitoring and management of risk-- dutifully pushed back against certain investment practices. The concern on the operational end was that without the appropriate planning and adjustments made beforehand, these highly complex investments could

overwhelm their ability to maintain systems and reporting that would clearly define risk for the enterprise. The analysts, who had historically counted on Frost's operational capacity to manage any investment they made, found it unsettling that their ambition might be curbed. Nat found himself needing to respond to some analysts who questioned whether he was going to let "the tail wag the dog" and to operational managers who felt strongly that the risk-averse culture of the firm might be compromised. Sal supported Nat by continuing to build the organization that the investors needed, but his feedback to Nat about the potential risks of complex investments in an environment of rapid growth was consistent.

Sophisticated in his appreciation of organizational behavior, Nat was aware that the firm's culture might change for the worse if those in the control functions began retreating from their roles in reaction to the anxiety being held by their area. In response, he, Sal and I designed an offsite that brought the heads of investing together with the heads of the operational units. The goal was to foster a deeper appreciation of each side's changing responsibilities and for Nat to drive home the message that Frost would continue to be a single business in which every role was necessary, appropriately authorized and resourced. The offsite culminated in the formation of a new committee, reporting to Nat and Sal, comprised of two senior investors and two senior operational managers. The committee's mission was to surface issues that might compromise efficiency, collaboration and the culture at large.

Within the first year of its existence, the committee offered a thoughtful critique of the way those in leadership—specifically Nat, Sal and the management committee—were now holding their roles. They reported that with the rapid growth of the firm, authority and accountability had become diffuse in the larger organization, resulting in confusion around priorities. One result of this confusion was that certain operational areas were taking a protectionist posture that confounded collaboration. Nat and Sal took the committee's report seriously and made changes to the management committee's agenda so that discrepancies in operational strategy could be surfaced, resolved and corrected through the firm. Nat also made it clear that while investing would always be the engine that drove the enterprise, he needed senior operational managers to work through any idealization of the investors that might inhibit their responding aggressively when they saw risks to the firm.

One of Nat's great advantages as an investment professional was his awareness of the potentially corrosive effects that money has on judgment. He spoke and wrote often about the potential for the pursuit of great profit to blind people to the more advised approach of weighing risk against return. Nat understood a variation of what Phillips described: that the protean potential of money can engender a sense of magical protection from the unpredictable—or even predictable—calamities that trigger loss. Part of Nat's mission as chief executive had been to put in place rigorous hiring and development

practices that acculturated his analysts to tolerate the experience of missing out on the possibility to gain more profit when the potential risks suggested greater prudence; to become comfortable, over years of supervised practice, with saying “no” to opportunities. This was especially when the markets and Frost’s competitors tempted them to bend their investment philosophy for an opportunity that seemed extraordinary. Part of the ethos of investing imparted by Nat to his analysts was that they must learn to monitor the emotional disturbance that is inevitable as they work in an industry that would radically transform their material lives.

The ability to realize strong profit defines power within these financial organizations and, consequently, the power relationship between analysts and those in operations is never equal. While the personal wealth of those in operations at Frost could never compare with that of their colleagues in the investing function, the distribution of profits to employees contributed to an unproductive psychological effect that was challenging to manage. For the senior managers in the operations areas, the investors’ acumen resulted in their lives and the lives of their families being materially changed to a degree that most had never dreamed of. This force, combined with the stature of these investment professionals locally and in the financial world, made these managers and staff vulnerable to abandoning a realistic assessment of their colleagues in favor of unproductive idealization. It took the experience of the investing/operations committee, formed following the offsite, to recognize through their own process the degree to which those in operations often took an overly deferential posture in relation to their colleagues in the trading room. By passing on the committee’s experience in presentations to other senior leaders, a process was begun in which operational leaders were asked directly by Nat to rethink the way that they took their roles in relation to their investor colleagues.

A consciousness about money’s influence on the psychology of individuals in the firm was a defining advantage for the Frost Enterprise compared to competing firms like Cummings. In contrast to Frost, the leadership at Cummings perpetuated an unproductive dependency on their CEO. David became comfortable as a patriarchal figure and mistook complacency for an environment of strong morale where, to his relief, few complained. Unwittingly, he fostered a patriarchal culture that stimulated a regressed sense of well being in which the father provided abundance and managed risks to the family. For their part, operational staff contented themselves with the daily execution of tasks and gave little thought to questioning or improving their process.

A Culture of Risk Management

The leadership of the organizations described here is noted for contributing significantly to whether or not each financial firm was able to anticipate and adapt to changes in markets. Both leaders share the quality of swaying the organizational culture with a charisma that bonded people to their mission and contributed the basic assumption posture (Bion, 1961) taken by the firm as a whole. During profitable, less challenging years it was easy for the both firms to fall into the position of dependency on the nearly magical figure who oversaw the process of creating wealth for all employees. In David’s

case, the leader and his followers colluded to build an organization that perpetuated that dependency and strangled opportunities in the system for information to flow up and correct investment practices. In the other case, the equally charismatic leader used his influence to build an ethos of suspicion in which it was assumed that things no one had ever anticipated might emerge and threaten the business. The depressive position (Klien, 1975) fostered by Nat was one in which he regularly spoke of the potential vulnerability of the firm and the need to remain vigilant to the loss that could be inflicted from unanticipated change. To monitor for the unexpected, he made it clear that he needed a system-wide adherence to identifying internal obstacles that might stifle communication about investment risk. By focusing on excellence of practice as a means to realize an end of investment success, he promoted an idea of the organization to which employees eagerly identified. For most of his followers, Nat's idea of Frost became an idealized object that once internalized, bolstered their personal sense of meaning and so became a part of their identity that they fervently defended.

In both cases, the investment firm's culture was seeded by the values of its top leader and, in the end it is the cultural imperatives that define the organizational response to risk. Just as the manufacturing and building industries have shown that safety (a different form of risk management) is best contained when it is managed at all points in the system by a cultural adherence to specific values (Simon and Leik, 1999), so is investment risk best managed by a conscious cultural dedication across the organization. To rely on policies, software programs or a specific role (chief risk officer) is to try and contain the anxiety within a bureaucratic matrix rather than through the necessary relationships that must be constantly renegotiated to keep collaboration fresh (Hirschhorn, 1988). Those businesses that hope to avoid the dislocation of functions described by Blankfein (Jenkins, 2009), will only do so by mutual engagement; by adjusting organizational structures so that participants have the opportunity to review, learn and feed critical information to leadership. But there are also larger systemic issues also at work here.

The competition among investment professionals within an organization, and among financial institutions is pitched to such a degree that change will call for extreme discipline at both an industry and a societal level. The psychic pressure on CEOs to resist the fear of missing out is formidable in an environment where peers gain from short-term, risky investments. Consider the current phenomenon of pension funds 'doubling down' with high-risk investments in an attempt to recoup losses while the fallout from the credit crisis continues. Even in the wake of the financial crisis, those who might attempt to lead from a position of greater organizational discipline would likely be fired from many public companies for failure to feed the money-mad fantasies of their Boards and investors. For similar reasons, the prospect of successful government regulation seems unlikely in the near future. It would call for politicians and appointed officials to dampen the potential for short-term economic growth at times when such growth incurred too much risk to the system; to recognize when the public's desire is being enflamed by opportunities that belie realistic social and economic utility. Imagine, for instance, Alan Greenspan having removed the punchbowl from the party by pushing up interest rates at a time when banks, funds and homebuyers were drunk with the leverage provided by cheap money. Our broader system suffers the same reluctance to authorize and resource

those bodies that would better inform and check businesses that, left to their own, will continue to dance to the music convinced that someone else will be left without a chair when the music stops.

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