

Risk management gets personal

Lessons from the credit crisis



Written by:

Julian Birkinshaw, AIM Senior Fellow and Professor of Strategic Management,
London Business School

Huw Jenkins, Executive in Residence, London Business School

The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

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- Over 250 AIM Fellows and Scholars – all leading academics in their fields...
- Working in cooperation with leading international academics and specialists as well as UK policymakers and business leaders...
- Undertaking a wide range of collaborative research projects on management...
- Disseminating ideas and shared learning through publications, reports, workshops and events...
- Fostering new ways of working more effectively with managers and policymakers...
- To enhance UK competitiveness and productivity.

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Our more specific objectives are to:

- Conduct research that will identify actions to enhance the UK's international competitiveness
- Raise the quality and international standing of UK research on management
- Expand the size and capacity of the active UK research base on management
- Engage with practitioners and other users of research within and beyond the UK as co-producers of knowledge about management

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AIM research themes

Current AIM research projects focus on:

UK productivity and performance for the 21st century.

How can UK policymakers evaluate and address concerns surrounding the UK's performance in relation to other countries?

National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

Sustaining innovation to achieve competitive advantage and high quality public services.

How can UK managers capture the benefits of innovation while meeting other demands of a competitive and social environment?

Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.

Adapting promising practices to enhance performance across varied organisational contexts.

How can UK managers disseminate their experience whilst learning from others?

Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.

The recent credit crunch and ensuing global economic downturn has highlighted shortcomings with the management of many firms, and in particular with the risk management decision making in many organisations.

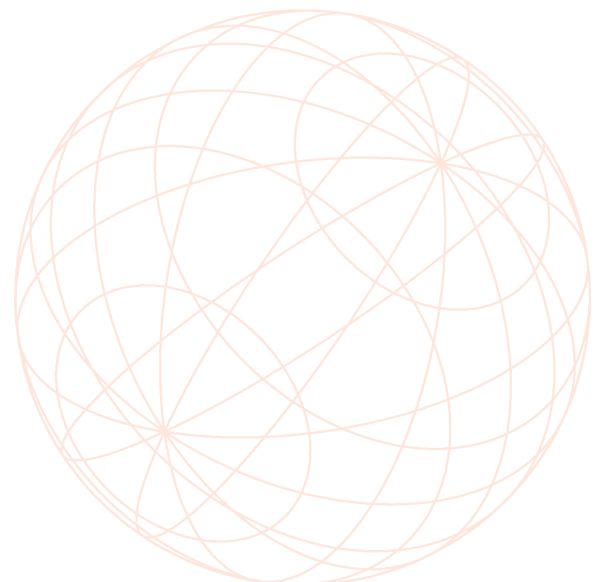
Our research reveals that, in many cases, a change in emphasis in risk management strategy will enable organisations to better balance false positive risks – associated with investing in a potential opportunity that does not materialise – and false negative risks – associated with failing to act on an opportunity that does materialise. And, therefore, benefit both the organisation, as well as reducing any systemic risk associated with failure of that organisation to operate efficiently, as with the recent banking crisis.

In particular, our research revealed:

Complementary approaches: There are three complementary approaches to managing risk in large firms: formalisation – using system-wide procedures and rules to evaluate and adjudicate on what risks are worth taking; externalisation – using the expertise and seal of approval provided by third parties – such as auditors, regulators and credit ratings agencies; personalisation – pushing responsibility for evaluating and making risk judgments to those individuals making decisions, and requiring them to live with the consequences of those decisions.

Emphasising a personal approach: Evidence from the banking sector and elsewhere suggests that the balance of the three approaches to risk management – formalisation, externalisation, and personalisation – should be shifted towards personalisation, especially in large firms. Personalisation creates a stronger link between the individual and team making a risk management decision and the consequences of that decision, which in turn creates a greater sense of personal responsibility towards risk management.

The recent credit crunch and ensuing global economic downturn has highlighted shortcomings with the management of many firms...



The *three elements of personalised risk management*. Our research shows that there are three necessary and supporting elements of personalised risk management.

- **High quality insight:** Making decisions requires good quality information, effective analytical tools, and the competence to interpret this information. Organisations must build systems that put the right information in the hands of those making risk management decisions, and transform that information into insight through deep experience.
- **Personal accountability:** In many organisations risk management decision maker is too far removed from the action to feel any genuine responsibility. Organisations must ensure that personal accountability is appropriately rewarded, and that the individual or team with the high quality insight is also the one making the decision.
- **Supportive culture:** Organisational culture – informal behavioural norms – must support the principles of high quality insight and personal accountability. Building a supportive culture takes many years of consistent messages and actions from a leadership team. It also includes a number of basic principles: *transparency of purpose* – a visible and ongoing commitment to a set of non-financial objectives; a *refusal to simplify the big picture* – encourage all employees not to get lost in the detail but to appreciate how their work has implications for others, and how their decisions and actions impact on the wider organisation.



...organisations would benefit from focusing more closely on the personalisation aspect of risk management decision making strategies.

Personalisation is not a substitute for either the formalisation or externalisation of risk management – it is a complementary approach. The best-managed organisations balance all three models. Our research suggests very strongly, however, that organisations would benefit from focusing more closely on the personalisation aspect of risk management decision making strategies.

introduction: a failure of management

The world is in the grip of one of the severest economic downturns since the Great Depression of the 1920s. Many national economies are in recession, global GDP has slumped, and there has been a major banking crisis, accompanied by the failure of a number of financial institutions.

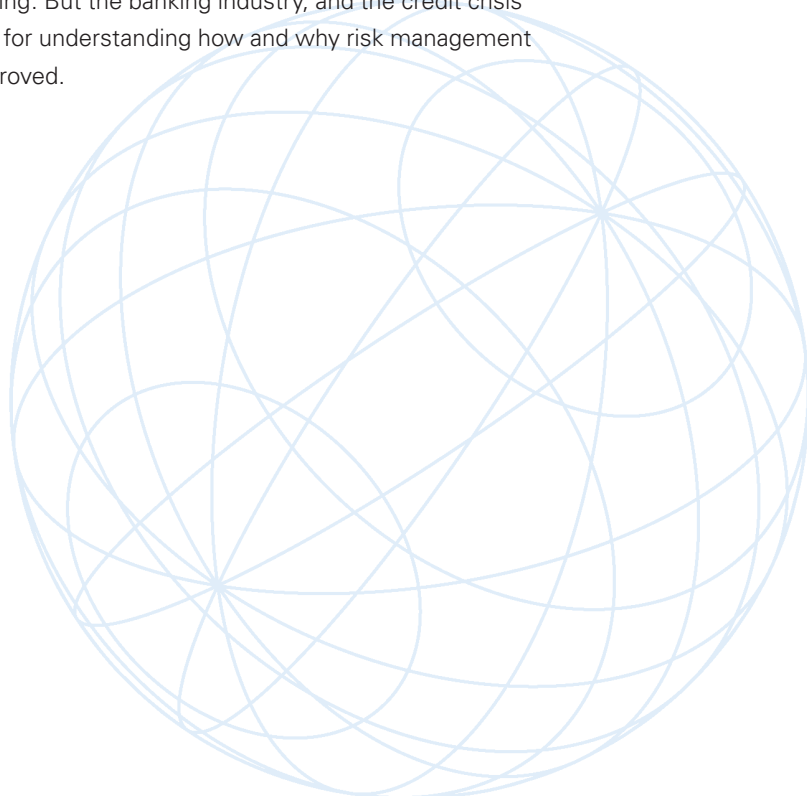
Given the dramatic events of the past couple of years it is no surprise that people are searching for some answers. How did the global economy, and in particular, the banking system, get in such a mess?

There are plenty of promising candidates to apportion blame to. A lot of the responsibility, for example, has been ascribed to the market system; indeed some commentators question whether the Anglo-American model of capitalism is actually fit for the future.

Another less frequently discussed perspective, however, focuses on the role that bad **management** played in the financial crisis, and how financial failure was in large part due to a failure of management – the inability of executives running large companies to do their job properly.

Management has many facets to it, and mistakes were made in several areas, not least in the development of flawed incentive systems and the lack of clarity over long-term objectives. But the focus of this executive briefing – and as it became clear from our research, (see box on page 8) clearly a central part of the story – is the poor risk-management decision making that was at the heart of the sub prime meltdown in 2007, and that continues to haunt the banks today.

Of course, the problem of poor risk-management is not confined to banking: sectors as different as oil and gas, pharmaceuticals and telecommunications have all experienced their share of poorly-judged risk taking. But the banking industry, and the credit crisis in particular, provides a rich context for understanding how and why risk management goes wrong, and how it can be improved.



In the years leading up to the credit crisis, financial services companies focused unduly on the *formalisation* of risk management, by developing multi-stage procedures with many signatories to evaluate what risks were worth taking. They also, to a large degree, relied on the *externalisation* of risk management – the use of expertise and approval from outside parties such as auditors, regulators and credit-rating agencies. These two factors – formalisation and externalisation – were at the root of poor risk management decision making.

In the future, organisations need to pay more attention to the *personalisation* of risk management. This requires a greater quality of insight, greater personal accountability, and a stronger supportive culture for risk management.

Personalisation of risk management does not mean throwing out the traditional systems and support structures, however. It means a subtle shift in emphasis: a shift from the management of a portfolio of risks to the underwriting of individual risk decisions. And, it is important to stress, this approach is relevant across all sectors of the economy, not just to the world of financial services companies.

The research

This briefing is based on the results of an 18-month research project on risk management in large organisations. The project involved: interviewing a number of executives from a diverse array of business sectors, including financial services, pharmaceuticals, oil and gas, mining, and telecommunications; conducting detailed analysis in one financial services organisation; carrying out interviews in public sector organisations.

The initial ideas were presented and discussed at an *in camera* conference at London in June 2008, and were then refined over the following year, with further rounds of interviews taking place with financial services executives and industry commentators.

managing risk

So what exactly is risk? In its simplest form, risk is the concept of the probability of a specific event occurring. In common use, however, the term is usually associated with potentially negative outcomes of future events, and can be calculated as a product of the probability of a future event occurring and the scale of loss associated with that event.

Firms cannot escape risk, or eradicate risk from their operations; they face multiple risks of contrasting types all the time. Rather than think in terms of removing risk altogether, therefore, the task of the organisation is to learn how to *manage* its risks appropriately. Riskier activities require higher rates of return to make them worthwhile investments, so to a large degree the organisations that become highly capable at managing their risks are likely to generate superior returns over time.

Risk management requires firms to balance two distinct types of risks – *the false positive* risk, associated with investing in a potential opportunity that does not materialise, and the *false negative* risk associated with failing to act on an opportunity that does materialise.

The consequences of false positive and false negative errors are very different, so effective risk management is all about evaluating the pros and cons of these two types of errors, and adjusting decision-making processes accordingly. For example, if an oil and gas company is extremely cautious about investing in new oilfields, it may avoid costly false positive mistakes in the form of dry wells, but risks not exploiting profitable wells that other less risk averse competitors may invest in.

Table 1 illustrates typical false positive and false negative outcomes in a range of situations.

Table 1: False Positive and False Negative Outcomes

Situation	False Positive	False Negative
Mining: Investment in unproven ore body	Millions of dollars of wasted investment	Opportunity lost; taken up by competitors
Financial services: Creation of new risky trading strategy	Investment wasted and potential for enormous losses if it backfires	Opportunity lost; taken up by competitors
Development of new pharmaceutical drug	Millions of dollars wasted; and danger to patients during trials	Promising drug never brought to market
Possible terrorist threat	Security services put country on high alert, for no apparent reason	Terrorist incident occurs
Concern about safety in a factory	New procedures put in place to make factory safer; perhaps reduced productivity levels	Accidents occur in the factory

Riskier activities require higher rates of return to make them worthwhile investments...

Bureaucracy and the depersonalisation of risk

So how do firms manage risk? How do they bring the necessary level of knowledge and expertise to bear on difficult decisions? And how do they ensure that individuals act in the best interests of the firm, rather than themselves?

Historically, the answer to these questions has been the model known as *bureaucracy* – the regulations and structures used to control activity¹. Bureaucracy has many benefits: it encourages the development of formal rules and procedures that transcend individual idiosyncracies and historical orthodoxies. However, bureaucracy also has many unwanted side effects: it can become overly rigid and specialised; it encourages groupthink; and it can lead to depersonalisation and a lack of ownership on the part of employees.

The benefit of a more personal approach to risk management is clear from an examination of the winners and losers in the credit crisis.

It is this last set of concerns – around depersonalisation and loss of ownership – that are the most salient here. As firms grow, they need to build formal systems to generate economies of scale and scope, but at the same time must balance that formality with the agility, personal accountability and freedom of expression that comes from a small, more entrepreneurial environment.



The benefit of a more personal approach to risk management is clear from an examination of the winners and losers in the credit crisis. While there were notable failures among smaller players like hedge funds, the major losses were borne disproportionately by the very large banks. This was partly because small financial services companies did not have the credit ratings or balance sheets to carry the so-called super senior tranches of CDOs that got the big investment banks into trouble. But it was also partly because decision makers were closer to the action, highly knowledgeable, and personally accountable for the outcomes of their decisions.

“We have robust informal systems, we communicate naturally, and we develop our own views on what risks to take. We get a return on our judgement,” remarked one leading hedge fund executive during the research.

JP Morgan Chase, one of the least-affected major players, for example, had a highly cohesive top team that took ownership of its risk-management agenda. Back in 2006, CEO Jamie Dimon and his team saw early warning signals of the credit risk on mortgages and the market risk on CDOs, as a result of which they reduced the bank’s level of exposure to mortgage backed securities.

Most of the large investment banks, by contrast, had hundreds of employees working in risk management, using procedures so carefully defined that well-intentioned managers could no longer see the bigger picture. According to one report, “the risk governance failings [of the banks] resulted from an over-reliance on low-level risk decisions in siloed businesses, product lines, and trading desks that ignored how these exposures contributed to a firm’s overall risk profile.”²

The net result was that some of the investment banks ended up making false positive *and* false negative decisions: not only did they steer clear of promising lines of business that other firms, such as hedge funds and private equity houses, grew into; they also made horrendous trading losses on some lines of business they chose to invest in. When a firm makes both types of error at the same time, it is a sure sign that the system is not working.

Three approaches to risk management

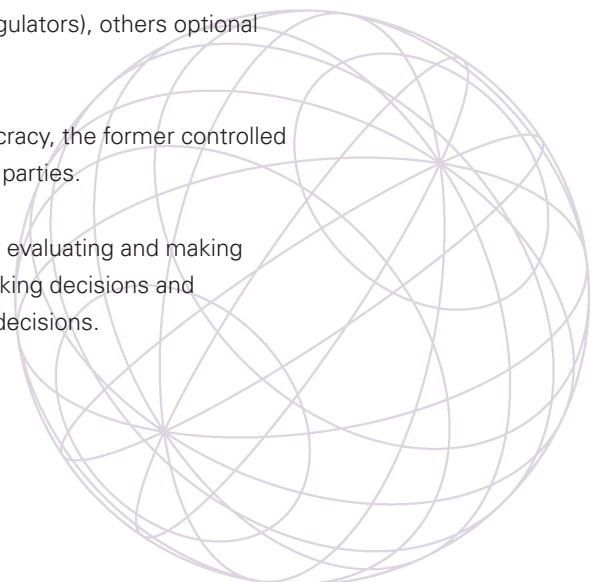
So where did bureaucracy go wrong? In our view, it failed because it allowed individuals to detach themselves – legally and morally – from the system in which they were working. We suggest that there are three complementary approaches to managing risk in large firms.

Formalisation: Involves using system-wide procedures and rules to evaluate and adjudicate on what risks are worth taking.

Externalisation: Involves making use of the expertise and seal of approval provided by third parties – some required by law (auditors and regulators), others optional but widely used (credit ratings agencies).

Both of these approaches are manifestations of bureaucracy, the former controlled by the firm’s management, the latter controlled by third parties.

Personalisation: Involves pushing the responsibility for evaluating and making a judgment around risk to those individuals who are making decisions and requiring them to live with the consequences of those decisions.



While all three approaches to risk are necessary and are used to varying degrees all the time, recent evidence from banking and elsewhere suggests we need to redress the balance of these three approaches towards *personalisation*, especially in large firms.

Goldman Sachs, one of the best performers through the credit crisis, is frequently cited as the acme of personalisation. As the *Financial Times* reported, “Employees [at Goldman] typically view themselves as being affiliated to the bank, not the business line, and there is a strong ethos of shared accountability.”³ And at JP Morgan Chase, Dimon is known to have taken an active personal role in risk briefings⁴. But Goldman Sachs and JP Morgan Chase are clearly exceptions: other firms in the sector relied heavily and continue to rely on bureaucratic approaches to risk management.

In the fields of drug development and social work, where human lives are at stake, it is arguably easier for individuals to take personal responsibility...

The personalisation approach to risk management is not confined to the financial services industries and applies in many different contexts. In the pharmaceutical industry, for example, firms constantly make high-stake investments in new drugs. These firms have sophisticated formal systems and stringent external regulations, but are also able to rely on the strong ethical norms and professional standards of the medical fraternity – a form of personalisation.

“Such experts are driven by a public willingness to improve collective knowledge of products, rather than by a private or commercial will to distribute them”⁵, noted one observer. It is this shared accountability among medical professionals that helps to minimise false positive risks.

Or consider an entirely different context – the social services profession. A recent high-profile incident in the UK was the death of toddler ‘Baby Peter’, at the hands of his mother and stepfather, despite accumulating evidence of abuse. On further investigation, it became apparent that the local social services organisation had formalised its support services to such an extent that social workers were spending 60%-80% of their time on paperwork, rather than in the field talking to families of at-risk children. There had been 60 separate appointments with Baby Peter and his mother, but because these were spread over so many different social workers, the full story did not emerge until it was too late.

One investigation into this case concluded, that computer technology “replaced a system where social workers wrote case notes in narrative form, which [...] made it easier for different officials to quickly pick up the details of complex cases.”⁶ Or in our terminology, the formalisation of risk management – through computer monitoring and nationally-imposed targets – squeezed out the personalisation approach that many would see as the essence of effective social work.

Personalisation, in other words, means that an individual or team *feels* responsible for whatever decision they make, and for the consequences of that decision. In the fields of drug development and social work, where human lives are at stake, it is arguably easier for individuals to take personal responsibility, and for them to balance the risks of false positive and false negative outcomes. But exactly the same principles apply in financial services and other sectors.

personalising risk management

While the concept of personalisation has intuitive appeal, many people struggle to apply it in large organisations that, by definition, rely on significant amounts of formal systems to get work done.

Our research suggests that there are three necessary and supporting elements to personalising risk management.

High quality insight: Making decisions requires good quality information, effective analytical tools, and the competence to interpret this information. But it is rare for all these things to come together. More usually, decisions get made with poor quality insight from self-interested sources, and with the relevant information fragmented across different parts of the organisation.

The credit crisis provides many examples of such failings. Lloyds TSB's acquisition of HBOS, for example, was a massively risky decision made on the basis of very limited insight. While the board of Lloyds TSB was under a lot of pressure from the Bank of England, its primary responsibility was to its shareholders – and it failed them.

At a more micro-level, studies have looked at the securitisation of mortgage loans in the run up to the credit crisis. They show that where loans were securitised and sold on to non-banks the likelihood of default was far higher than when loans were sold to affiliates of the originator. The non-banks, in essence, lacked the high-quality insight to make the right judgments about the risks they were taking⁷.

Effective personalisation of risk management is, therefore, about building a system that puts the right information in the hands of those making the call, and then transforming that information into insight through deep experience.

Critical incidents

Intelligence gathered by the UK police force on a daily basis, about criminal activities, community affairs, and so on, is usually dealt with quickly and without note. Occasionally, though, an incident flares up and becomes really serious.

To better alert themselves to potential flare-ups, and in recognition of past failings, in the late 1990s the police force instituted a *critical incident* approach. An employee of any rank was able to call together a cross-force group to collate all available information about an incident, and decide how to respond.

Critical incidents are only called occasionally, but they provide an effective way of quickly obtaining all the different views on an issue and reaching a thoughtful decision.

Many large companies have developed specific techniques for improving the quality of insight around important decisions. For example, one major mining company has an independent evaluation team which conducts its own analysis of a proposed investment, such as a new mine, before a decision is made. The investment committee reviews the proposal by the business unit seeking investment funds and then considers the independent team's assessment. By having two points of view, the quality of insight is improved, and the likelihood of a false positive investment is significantly reduced. This company now has an enviable record in making profitable mining investments.

Personal accountability: It's no surprise, either, that effective risk management requires personal accountability, but most firms get this wrong as well. Sometimes there are too many decision makers, or the decision maker is too far removed from the action to feel any genuine responsibility.

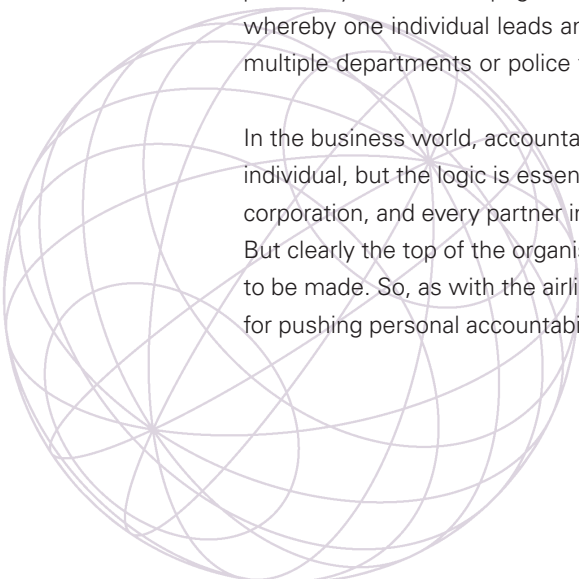
Often there is no link between the decisions taken and the rewards provided. For example, in the run-up to the credit crisis, many banks traded in risky securities to optimise revenue growth or short term profits, without giving due regard to the appropriate cost of capital or the long term nature of these securities. It is now conventional wisdom among commentators that a key factor in the creation of the current financial crisis was this focus on short term accounting profit and the use of highly-gearred incentives around it.

What is needed is a system where personal accountability is rewarded, and where the individual or team with the high quality insight is also the one making the decision.

One basic principle that every airline captain knows is to make risk decisions at the appropriate level – that is, at the level where the individual has the necessary experience and maturity to make a good decision. The captain may, for example, delegate specific decisions to engineering specialists or dispatchers, but the decision to fly the plane rests with the captain – not air traffic control, or the airline's Chief Executive.

The same logic applies in policing: In the critical incident model described previously (see box on page 13), a key principle is the concept of *command*, whereby one individual leads and coordinates a response, even if it cuts across multiple departments or police forces.

In the business world, accountability is as likely to sit with a team as with a named individual, but the logic is essentially the same. Every board member in a public corporation, and every partner in a partnership, understands their formal accountability. But clearly the top of the organisation is not the appropriate level for many decisions to be made. So, as with the airlines and the police, firms need to find mechanisms for pushing personal accountability down to those who are closest to the action.



A few models exist: BP, the UK oil major, for example, formalised the concept of a *performance contract* during the 1990s, in which the business unit head would sign off on a set of financial and non-financial objectives for the year. The well-known Toyota Production System grants individual workers the right to stop the entire assembly line to fix quality problems.

Supportive culture: The informal norms of behaviour in a firm – its culture – should support the principles of high quality insight and personal accountability. But all too often, these informal norms end up undermining the effectiveness of decision making. Some firms exhibit a culture of fear, where bad news is hidden from top executives; some are purely mercenary, with everyone looking out for themselves, and not others; while others suffer from chronic risk-aversion, with almost zero tolerance for false positive errors.

Of course there is no simple way to build a supportive culture. It takes many years of consistent messages and actions from a leadership team. But nevertheless there are several basic principles that can be applied.

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One is the need for *transparency of purpose*, where purpose refers to an organisation's higher-order reason to exist. Many investment banks, such as Lehman Brothers and Bear Stearns, had formal vision statements, but the credit crisis revealed that these were empty rhetoric. Transparency of purpose, instead, refers to a visible and ongoing commitment to a set of non-financial objectives.

Cultural transformation is possible when it is tied to a very clear purpose that everyone can identify...

Consider, for example, a leading mining company that, a decade ago, committed to eliminating one type of risk: employee injuries at work. All leaders signed up to this goal, all employees were trained on the company's safety standards, measures of lost-time injuries were monitored for all sites, and managers' compensation was linked to safety.

Today, all meetings – even those in white collar environments – start with a safety update. Safety thinking is deeply-ingrained in the minds of individuals throughout the company, and the safety record is impressive.

Cultural transformation is possible when it is tied to a very clear purpose that everyone can identify, and when it is reinforced through consistency of action. For example, one of the key features of the critical incident approach to policing, as described earlier (see box opposite), is to acknowledge the efforts of the individual who calls the critical incident – even if it proves to be a false alarm.

The other principle is a *refusal to simplify the big picture*. There have been academic studies of nuclear power plants and aircraft carriers, where errors can have catastrophic consequences. These studies sought to understand how the kinds of organisations that require very high reliability, function⁹.

The image shows a blurred financial data table with columns of numbers and symbols. The numbers are in various colors (red, black, white) on a grid background. Some visible numbers include 9651, -0.23, 22511, 09:49, 53.08, 5, 5309, 2912, +0.31, 13645, 09:49, 9651, 1, 9657, 4055, +0.02, 22711, 09:49, 2911, 6, 2915, 27.44, +0.07, 1205904, 09:49, 40.53, 19.00, -0.11, 100978, 09:49, 27.43, 565, 27.44, 23.45, -0.51, 146959, 09:49, 19.00, 2, 19.01, 39.97, +0.13, 18798, 09:49, 23.44, 5, 23.46, 11.

A key feature of a 'high reliability' organisation is that the individual employees involved, in routine maintenance activities, for example, are expected to take responsibility for seeing how their work fits into the big picture. So rather than compartmentalising every task, employees are encouraged to look across, and to understand, how their work has implications for others.

This approach has obvious relevance in the financial services industry. As one leading hedge fund manager explained, "we need to remain humble. I don't claim I know the answers; that is the golden rule. Strengths become weaknesses in a dislocation. We make our biggest mistakes where people claim we are strong."

Risk management the Novo Way

The Danish pharmaceuticals company, Novo Nordisk, provides a very clear example of how a transparency of purpose and refusal to simplify the big picture can be applied in a company⁹.

In 1993 the company failed badly in a mock audit, prior to a formal FDA inspection on Good Manufacturing Practice. This failure shook the company, and led to a root-and-branch rethinking of its management processes culminating in a new approach called the *Novo Way of Management*.

The new approach includes a formal statement of company values (accountable, ambitious, responsible, engaged with stakeholders, open and honest, ready for change). It also includes a number of formal mechanisms that ensure the values get incorporated into people's daily routines.

One such mechanism is the creation of a stakeholder relations team – its job is to “identify dilemmas, initiate reflection, install respect for differences, product alertness, and facilitate a corporate culture that values openness and humility.” Another is a team of five people who perform annual organisational audits that ensure individual units address the non-financial goals set by the executive team.

A third measure is a group of 14 facilitators, drawn from the ranks of senior management, whose job is to visit other units to evaluate how well they comply with the Novo Way of Management. “We serve two functions,” say the facilitators. There is, “the police function to detect if people are doing their jobs in ways that do not comply. Second, the feedback function, which helps people improve by making them reflective and pointing out activities that are done smarter in other units.”

A critical feature of this approach is that it is non-hierarchical: it encourages individuals at all levels to talk with the facilitators about issues that are not being taken up through the chain of command.

Novo Nordisk's approach illustrates how formal systems can be used to reinforce a culture, and also how such an approach enhances the quality of insight and personal accountability in an organisation. It also illustrates another feature of high-reliability organisations, namely the ability to respond decisively in response to a near-crisis (in this case, a mock audit), rather than waiting for a true crisis to hit.

conclusion: putting it together – a balanced system

There is no doubt that effective risk management is an essential organisational skill. And, as the recent financial crisis and ensuing economic downturn demonstrates, many organisations lack the appropriate risk management decision making strategy.

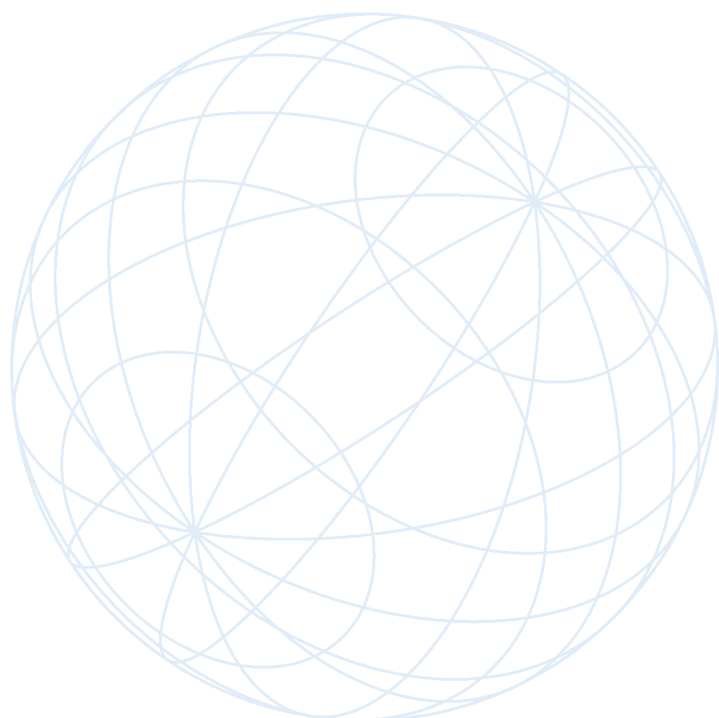
There is no doubt that effective risk management is an essential organisational skill.

The components of a personalised approach to risk management are far from surprising. What is revealing, though, is how inconsistently the principles involved were used over the last decade, whether by financial services firms, or organisations in other sectors.

Personalisation is not a substitute for either the formalisation or externalisation of risk management – it is a complementary approach. The best-managed financial services companies balance all three models. There is true ownership of the decision to underwrite a risk by the manager or trader who has the appropriate level of expertise and insight. There are formal systems for setting the limits for exposure to the types of risks that the organisation will tolerate. And external agencies are brought in periodically to validate and quality assure the internal processes.

Senior executives should construct risk management decision making frameworks that incorporate the risk personalisation principles, informed by our research, and set out in this briefing.

As many commentators have noted, investment bank Goldman Sachs appears to have survived the crisis relatively unscathed. As a former partnership, there is a greater degree of personal accountability and ownership at Goldman Sachs than in most other banks where, according to CEO Lloyd Blankfein, “risk and control functions need to be completely independent from the business units.”¹⁰ Personalisation and formalisation at Goldman Sachs are the yin and the yang of effective internal decision-making: they keep the organisation in harmony. It is a balance that other organisations would do well to strive for.



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A longer version of this paper is being published in Strategy + Business Magazine in Autumn 2009

Footnotes

- ¹ Max Weber's definition of bureaucracy. Weber, M. (1978) *Economy and Society*. A translation of the original, *Wirtschaft and Gessellschaft* (1956).
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- ⁹ This paragraph draws liberally from: Rerup, C. (2009) Attentional triangulation: Discovering and learning from unexpected rare crisis. *Organization Science* (forthcoming).
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Advanced Institute of Management Research (AIM)
4th Floor, Stewart House
32 Russell Square
London WC1B 5DN

Tel: +44 (0)870 734 3000

Fax: +44 (0)870 734 3001

Email: aim@wbs.ac.uk

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