Impact of Organizational Resilience on Firm Longevity

A Comparative Study of Two Financial Firms Impacted by the 2007-2008 Financial Crisis

Katherine Stipicevic

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Dedication

This dissertation is dedicated to my family.

I would like to extend my most sincere gratitude to my husband, Jim, for his support and unwavering encouragement throughout my academic pursuits.

To my children, John, Jim and Sarah, thank you for your endless patience and support as I pursued this degree.

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The purpose of this acknowledgment is to recognize those individuals who have provided assistance to me both personally and professionally as I have endeavored to complete the doctoral dissertation process.

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Abstract

This study is an exploration of the characteristics of organizational resilience and the effect of resilient leadership and culture on firms during times of economic turbulence. Through an investigation of the concepts of resilience as presented in scholarly research, an attempt is made to identify the resilient behaviors of long lived, enduring organizations. As an extrapolation, this study suggests that a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations.

The predominant characteristics of resilient organizations include the ability to proactively and continually assess and adjust strategy in response to a rapidly changing business and social environment. Enduring organizations adapt business strategy as necessary; keeping the organization's existence as their highest priority. The focus is on the organization, not the individual leaders. The long term vision remains a beacon guiding leadership even if the organization shifts their short term strategy. Similar to a living organism, resilient organizations are interconnected with the system to which they belong; they exist in relationship with the entities of the broader system.

The 2008 financial crisis provided a unique opportunity for a comparative study of resilient leadership and culture seen in organizations in the financial sector. The unprecedented failure of several major financial institutions raises the question, "Why did some firms fail and others endure?" The focus firms in this comparative study are Bear Stearns as a failed investment bank and JPMorgan as an enduring organization.

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This study utilizes two complementary methodologies. A case study is presented for each firm followed by comparative analysis of corporate communications with a focus on the CEO's Letter to Shareholders.

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Chapter One: Introduction

1.1 Introduction and Context

The term "resilience gap" to describe what happens in a world that becomes turbulent faster than organizations are becoming resilient. Resilience gaps occur when organizations are caught off guard, missing or underestimating the signals of impending crisis, and cannot react in time or take advantage of possible opportunities. They are unable to adapt at the speed of change. The financial crisis of September 2008 provides a good example of the resilience gap.

In September 2008, mortgage lenders Fannie Mae and Freddie Mac, and insurer American International Group, on the verge of failure, were taken over by the U.S. Government. Lehman Brothers filed for bankruptcy; Merrill Lynch was folded into Bank of America; Wells Fargo took over a struggling Wachovia; federal regulators stepped in to support Washington Mutual to prevent the largest bank failure in U.S. history; and IndyMac went into receivership by the Federal Deposit Insurance Corporation. Countrywide and the U.S. mortgage business virtually collapsed. The two remaining major investment banks, Goldman Sachs and Morgan Stanley, became bank holding companies. Around the globe, French, British, Swiss and German banks were rescued by their governments. Descriptions of the fate of the financial firms mentioned along with their timelines can be found in the work by the following authors: Cohan (2010), Gasparino (2009), Morris (2008) and Zandi (2009). The wave of impact was tremendous. Lenders could not or would not lend and money became scarce. Day to day operations of

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businesses which relied on credit came to a halt. Layoffs followed by bankruptcies became widespread.

Today, organizations with a history of consistent performance and reliable business models are facing competitive attacks from diverse entities, shifts in consumer tastes, technological advances, regulation and political directional changes. The gap described by Hamel and Valikangas (2003) results from the turbulence caused by constant, rapid change. The authors argue that in the past, organizations worked to improve, becoming better and more efficient in their areas of expertise and had to innovate to stay current with market trends. In the current business environment, however, Hamel and Valikangas (2003) posit that innovation is not enough. These organizations have to change, they have to "get different" in response to dramatic upheavals in the environment (Hamel & Valikangas, 2003). Resilient organizations are able to quickly modify business models and strategies in response to economic and market paradigm shifts.

Resilience and innovation are related. While much is understood about the innovation process and innovation diffusion, less is known about the emergence of innovative ideas. Bossink (2007), Crossan and Apaydin (2010), Deschamps (2008) and Van den Ven (2007) are researchers who speak to the challenge of understanding the allusive creative process of innovation in firms. Crossan and Apaydin (2010) present a good definition of innovation as required by resilient businesses today. Innovation is the production, adoption, assimilation, and exploitation of value-added novelty in response to changes in the economic and social environments (p.1155). A resilient corporate culture enables an

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organization to innovate and can be defined as the sum of a firm's product innovation, business venturing, and strategic renewal activities (Ling, et al, 2008). In a rapidly changing business environment, constant strategic reflection, renewal and innovation are critical for organizational resilience.

Successful organizations have a positive effect on the economic environment providing jobs within the organization as well as with a host of external supporting entities. Successful organizations attract workers. These workers need housing, roads, schools, hospitals, public services, and places to shop. All of these supporting businesses in turn require workers. Successful business breeds more successful businesses.

So too, every non-resilient, failed organization impacts many. The death of a company is not without significant costs. Employees, suppliers, contractors, communities and shareholders all feel the loss. A look at the recent economic challenges along with the dramatic demise of several long lived seemingly invincible organizations, such as Bear Stearns, AIG, Merrill Lynch, Lehman Brothers (Appendix A), makes one ponder why some organizations survive, turning the challenges of a changing environment into opportunities, while others fail.

The impact of connectedness as seen through the 2008 credit crisis has had more than a ripple effect on business; the effect has been more like a tsunami. The financial shake up and its after shocks had massive repercussions. The 1997-2005 real estate bubble touched the lives of almost every citizen. This "perfect storm" caused by the

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combination of irresponsible borrowers, irresponsible lenders and irresponsible investors illustrated just how closely local communities and their economies are linked to Wall Street.

One of most evident warning signs of a breakdown in resilience as observed in the case of Bear Stearns was the breakdown in the organization's ability or willingness to reinvent its strategy as the economic paradigm shifted. As will be shown, an overconfident attitude and a sense that the leaders were too smart or too invincible to fail was apparent in the comments and behaviors before and during the crisis. Evidence in support of this position is provided in the case studies presented in the methods section of this paper. The Bear Stearns case study, as presented in this paper, traces leadership and culture of the firm through the years using journalistic interviews, investigative reports, newspaper perspectives and books written by Bear Stearns leadership. By contrast, as will be seen in the case study, JPMorgan demonstrated the behaviors of resilient leadership and culture. The management team continually and aggressively evaluated direction, challenged and modified strategy as they maneuvered through the crisis period. Constant reflection helped to steer the firm through the crisis using a system of checks and balances from both internal players and external advisors.

This study uses content analysis techniques to look at communications to shareholders for evidence of signs of a breakdown in resilience leading up to and during the crisis years. Typically, the message in the letters to shareholders offers important perspectives relative to the future vision of the organization, given from the CEO's point of view. This is a

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perspective that may not be detailed in formal documents such as the annual report. Detailed analysis of the language used in these documents can offer insight into the discretionary image of the organization as portrayed by leadership. Multiple researchers posit that a CEOs' public communication and specifically the Letters to Shareholders can provide insights into the attitude and style of an organization's executive leadership. Prasad and Mir (2002) suggest that the texts of the CEO's communications, when aligned with key events, have the purpose of producing specific perceptions and attitudes. Clatworthy and Jones (2006) align with this supposition, calling the practice impression management. Their words have the potential to present a strong and charismatic voice or an aura of hubris that could prove to be a liability to an organization (Amernic & Craig, 2007).

1.2 Thesis and Statement of the Problem

The focus of this dissertation is to explore the characteristics of organizational resilience and to determine the effect of resilient leadership and culture on firms during times of economic turbulence. Through an investigation of the concepts of resilience as presented in scholarly research, an attempt is made to identify the resilient behaviors of long lived, enduring organizations. As an extrapolation, this study suggests that a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations. This exploration will shed light on management behaviors that could undermine resilience as well highlight those behaviors that could promote a resilient culture.

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1.3 Significance of the Problem

A breakdown of resilience in leadership and corporate culture can have devastating effects. The 2008 financial crisis provided a unique opportunity for a point in time comparative study of resilient leadership and culture seen in a failed organization as well as an enduring organization in the financial sector during a time of extreme stress. *The Financial Crisis Inquiry Report* (2011) concluded that the financial crisis was avoidable, that it was the result of human action and inaction. "The captains of finance and the public stewards of our financial systems ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well being of the American public" (p xvii).

The events resulting from the crisis were devastating. The report states the following:

> "The profound events of 2007 and 2008 were neither bumps in the road nor an accentuated dip in the financial and business cycles we have come to expect in a free market economic system. This was a fundamental disruption – a financial upheaval, if you will – that wreaked havoc in communities and neighborhoods across the country.
> As of this printing, there are more than 26 million Americans who are out of work, cannot find full-time work, or have given up looking for work. About four million families have lost their homes to foreclosure and another four and a half million have slipped into foreclosure process or are seriously behind on their mortgage payments. Nearly $11 trillion in household wealth has vanished, with retirement accounts and life savings swept away. Business large and small, have felt the sting of deep recession…The collateral damage of this crisis has been real people and real communities. The impacts of this crisis are likely to be felt for a generation. And the nation faces no easy path to renewed economic strength (2011, p xvi)."

The significance of a comparative study of the resilient leadership and culture as exemplified by Bear Stearns and JPMorgan is that management lessons be learned and

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taught to help encourage resilient behavior as well as provide some warning signs of non-resilient tendencies.

1.4 Research Questions

The conceptual framework, which depicts the research question, is illustrated in Figure 1. The framework demonstrates resilient leadership as a derivation of the characteristics of organic and individual resilient behavior. At the organizational level, resilience is strengthened through an iterative reflection on behaviors. This iterative reflection is driven in part by asking the "right questions" and a Socratic understanding of "thy self". This will be explained further in Chapter 3 with a discussion around the conceptual framework.

Research Question 1: Based on scholarly research, what are the leadership traits and cultural characteristics of long lived organizations?
The leadership traits and cultural characteristics of resilient organizations are determined through scholarly research on resilience in general, resilient leadership, resilient culture, the behaviors of family controlled and non-family controlled firms, stewardship, and overconfidence as a risk to resilient behavior. As an extrapolation, the following research question is derived:

Research Question 2: Based on scholarly research does a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations?

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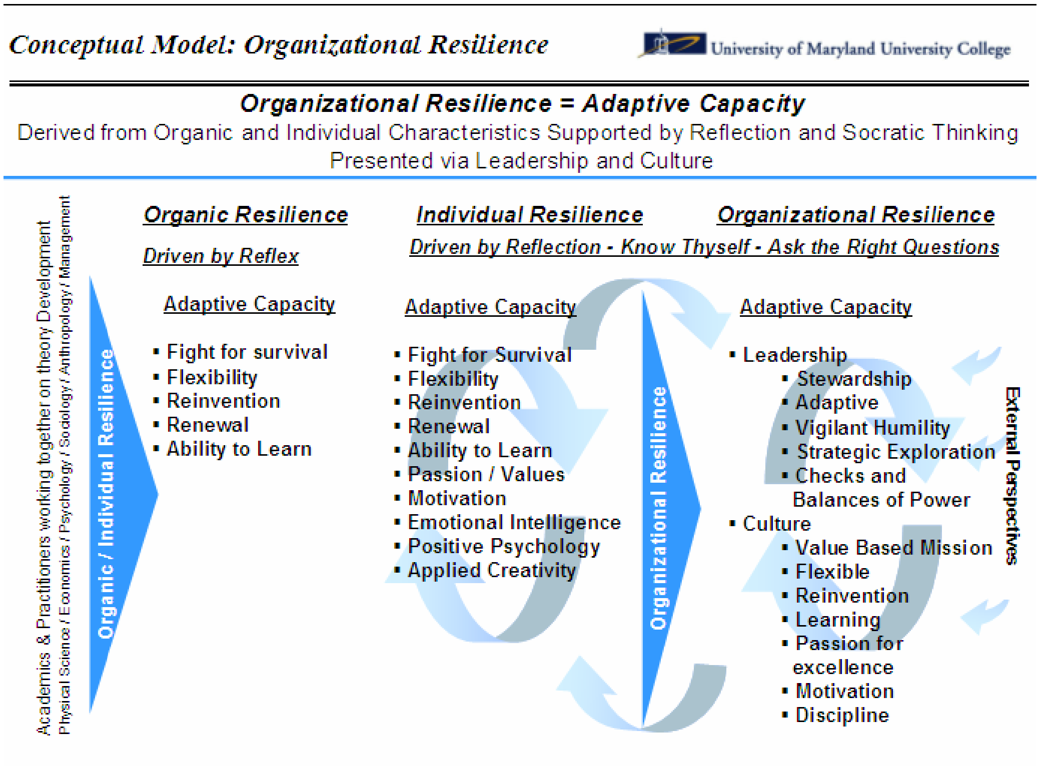
Figure 1. Conceptual Framework



1.5 Closing Observations and Opinions

Based on scholarly research, the findings of this study will offer evidence that consistently striving for resilience in leadership and culture is critical to organizations with long term vision and that a breakdown of resilient behavior is observed as an organization fails. It is important that resilience should be considered an activity. It is not a destination. It is the constant reflection and dynamic maneuvering of an organization for optimal and sustained growth. The management lessons coming out of the 2008

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Financial Crisis are vast. The question is whether the lessons will be heeded to avoid future catastrophe.

1.6 Organization of the Dissertation

The dissertation is organized into six chapters. Chapter one conveys the statement of the problem as well as the thesis questions and outline of the paper. It also includes the context and relevance of the study. Chapter two consists of an exhaustive literature review organized by topic as well as a discussion around research propositions as they emerge from the literature. In the spirit of evidence based research, chapter two will include the case studies of Bear Stearns and JPMorgan and the content analysis of each firm's Letters to Shareholder for the period of 2003-2007. The results are discussed along with a correlation of the findings with the behavior of the two target organizations, Bear Stearns and JPMorgan. Chapter three consists of the conceptual framework and the scholarly support of the framework. The conceptual framework is proposed as a pictorial representation of the relationships among organic resilience, individual resilience, and ultimately organizational resilience as presented in an organization's leadership and culture. Chapter four consists of the methodology including a discussion of the theory and practice of evidence-based research as it applies to the impact of organizational resilience on firm longevity. Chapter five consists of the analysis and discussion of the findings from the literature review, case studies and content analysis. Additional research question will be posed along with a summary of the study. The final section of the paper is chapter six which presents conclusions, implications for management and considerations for future study.

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Note: The company name for J.P. Morgan Chase and Company appearing through most of this paper is JPMorgan Chase which is aligned with the firm's own style. It is sometimes shortened to JPMorgan.

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Chapter 2: Literature Review

2.1 Introduction

The goal of this literature review is to present a theoretical framework on the topic of organizational resilience as it relates to firm longevity. The focus is on the organizational behavior, management psychology and economic imperatives supporting the hypothesis that resilience in leadership and culture are essential behaviors seen in long lived organizations. Resilience encompasses connectedness and the ability to adapt rapidly and positively to economic and social changes.

2.2 Organizational Resilience Defined

As presented in this chapter, academic scholars and business practitioners provide perspectives on resilience based on extensive research and experience in the field of organizational management. In addition to studies carried out by research teams, researchers draw on publicly available, industry case studies and surveys such as the Towers Perrin Global Workforce Study (http://www.multiculturaladvantage.com/recruit/diversity/global-diversity/Towers-Perrin-Global-Workforce-Study.asp). The Towers Perrin study took place in 2005 and included more than 85,000 people working in sixteen countries. The survey provided an in depth look at employee engagement. Hamel and Valikangas (2003) utilized this survey to make the case that the level of employee engagement is a critical component of the behaviors which characterize resilience. Both Hamel and Valikangas working independently, built

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business perspectives based on years of case study analysis, interviews and surveys. Details of Valikangas' work are available in scholarly journals where she provided detailed case study analysis of organizations demonstrating traits supporting resilience as well as failed organizations which lack these traits. Valikangas also observed the correlation of organizational rigidity toward adaptation to individual rigidity using the case analysis of biotechnology firms (Valikangas, 2007). Rigidity toward adaptation is considered the opposite of resilience by the author. The details and results of some of Hamel's studies are included in his book *The Future of Management* (2007). Hamel also co-authored works presented in the *Academy of Management Review* on the subject of organizational innovation as it relates to resilience (Birkinshaw, Hamel & Mol, 2008). In their collaborative paper, Hamel and Valikangas defined organizational resilience as the ability of an organization to dynamically reinvent its business model, not as a reaction to a single crisis, but rather by being ahead of the wave of change; to be proactively and continuously adjusting to secular trends. It is the ability to change before there is a desperate need to do so. Renewal must be continuous and opportunity-driven, not episodic and crises driven according to Hamel and Valikangas (Hamel & Valikangas, 2003).

A literature search provided definitions of resilience that support the position taken in this paper - that resilient behaviors are demonstrated by enduring organizations. The work of Reinmoeller and van Baardwijk, Garmezy, Coutu, Weick and Hamel and Valikangas are drawn upon to define resilience. Reinmoeller & van Baardwijk (2005) consider

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psychology in their discussion of individual resilience drawing on the childhood behavior research by Garmezy (1978) and linking this to the work of Coutu (2002) and Weick (1993). The Garmezy study, based on in depth psychological qualitative and quantitative analysis of children under stress, concluded that some children were creative, positive, focused, flexible and proactive in spite of being in extremely stressful situations. These are the traits considered to be fundamental to resilience as presented in the Coutu (2002) paper and the case study analysis by Weick (1993). These studies provided the opportunity to discuss some of the facets of individual resilience that may be applied to organizations supporting the research goal of this paper.

Drawing on his thirty years as a consultant, practitioner and student of the patterns of behaviors associated with successful transformations, Conner (2006) proposed the characteristics of resilient individuals which align with research findings mentioned thus far. He suggested that resilient individuals effectively identify opportunities in turbulent environments and have the confidence to believe they can succeed. They are realistically positive about themselves and the world. They are passionate and demonstrate a high level of emotional intelligence. They are focused. Resilient individuals have a clear vision of what they want to achieve, and they use it to guide them when they become disoriented. They are flexible. Resilient individuals draw on a wide range of resources to develop creative, flexible strategies in responding to change. They are organized. Resilient individuals use structured tactics to transform ambiguity in dealing with uncertainties of change. They are proactive and creative. Resilient individuals initiate

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action in the face of uncertainty, taking calculated risks rather than seeing the comfort of the status quo (Conner, 2006).

Reinmoeller and van Baardwijk (2005) took the definition of resiliency as an individual quality and adapted it to organizations by focusing on corporate attributes such as risk awareness, risk protection and the reduction of vulnerabilities. Their research was conducted by analyzing the behaviors of companies they defined as resilient. These were companies with a record of "outperforming their peers for two decades between 1983 and 2002 in terms of superior financial performance and longevity; spanning a variety of industries and including many of Fortune's Global 500 companies on the basis of book value per share, return on assets and sales growth." (p. 62). Innovation was tracked in one database. In another database, information was stored resulting from interviews, articles about and public statements by the CEO regarding strategy. These two data stores were then linked to the annual report data. Using qualitative analysis for non-numeric data and quantitative analysis for the numeric data, results were tabulated. The results indicated that in order to be innovative and reinvent themselves, companies need to overcome barriers to change and develop multiple sources of competitive advantage. According to this study, organizational resilience can be summarized as the capability to self-renew over time through innovation. In this study, the following areas were found to support resilience: Knowledge Management –Leveraging of existing knowledge in an organization, thriving organizations are learning organizations. Exploration – Creation of new, internal ideas and resources allowing incremental and radical innovation.

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Cooperation – Transfer and exchange of existing resources and ideas across organizational boundaries, boundaries become blurred. Entrepreneurship – Stimulation of entrepreneurial behavior through cultural and organizational elements that facilitate and encourage creativity, risk taking and the fertilization of ideas (Reinmoeller & van Baardwijk, 2005).

As noted thus far, research suggests that organizations best suited for survival in today's rapidly changing business environment demonstrate certain characteristics. These key characteristics include adaptability, flexibility, the ability to be reactive and have quick reflexes, and being open to new ideas and opportunities. This argument is supported by the work of Bockner and Hayes (2008), Collins (2001) and Youssef and Luthans (2007).

Brockner and Hayes (2008) made the case that for resilient organizations, crises have the potential to be a "catalyst for positive organizational change and, if handled appropriately, may leave the organization or its constituents better off than they were beforehand" (p 95). Brockner and Hayes utilized survey, interview and content analysis of official statements (i.e. Letters to Shareholders) as a way to study individual as well as leadership resiliency. The authors linked behaviors associated with resilience to expectancy and motivation theory and defined an organizing framework to support future study.

> Drawing on expectancy theory, we posit that executives' belief about the value and attainability of the potential opportunities in a given crisis situation affect the likelihood that those opportunities will be perceived.
>
> Drawing on motivation theory that posits that beliefs and behaviors are a function of what people value and what they expect, we hypothesize that perceiving the

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> opportunity in crises is a function of decision maker's perceptions of the value of the opportunity in crisis as well as their expectations for success" (Brockner & Hayes, 2008 p 98).

Their work is included in this study to ground the definition of resilience in established management theory. In addition, their approach validates the case study and content analysis approach taken in this paper to illuminate behaviors supporting or undermining resilience.

Collins is a practitioner and business subject matter expert in the field of organizational resilience and longevity. Collins' work entitled *Good to Great* (2001) reported the results of a five year study led by the author on organizational behaviors identified in companies that transitioned from good results to great results and maintained that standing for fifteen years despite challenging economic conditions. The good to great metrics were measured by the tracking the ratio of cumulative stock returns against the general market. The examples included in the study averaged a cumulative stock return of almost seven times the general market in the fifteen years following their transition from an average performer to a high achieving performer. The 'great' companies were shown to have exhibited the key characteristics of resilience mentioned above (p 3).

Youssef and Luthans (2007) provided two empirical studies to test their hypothesis that positive behaviors of resilience as mentioned above have the positive outcomes of work satisfaction and organizational commitment. The first study involved samples of 1,032 employees in 135 Midwestern organizations from a broad range of industries. The second study involved a somewhat smaller sample set covering a similar range of organizations

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as in the first study. However, only organizations willing to share full performance appraisals were included in the second study. One of their observations was that resiliency recognizes the need for flexibility, adaptation and improvisation in situations predominantly characterized by change and uncertainty. Resilient leaders find meaning despite circumstances that don't lend themselves to planning, preparation, rationalization or logical interpretation (Youssef and Luthans, 2007). This work further validated the behaviors of resilience offered in this paper as being anchored to concepts presented in scholarly literature.

Hamel and Valikangas (2003) drew on observation, analysis and consulting experience to take the position that for an organization to be truly resilient there needs to be "zero traumas." This means that the organization is continually and dynamically evolving. It is in a constant state of positive renewal. The goal of a resilient organization is to have a dynamic strategy that is constantly redefining its future instead of defending its past; to thrive when major paradigm shifts occur without negative surprises, reorganizations, or layoffs. The authors suggest that a turn around is a testament to a company's lack of resilience; that ideally, a resilient organization should never have to turn around. "A turnaround is transformation tragically delayed" (Hamel & Valikangas, 2003, p.54).

Using the historical case study of Odwalla, a producer of fruit and vegetable juices as a backdrop, Stoltz (2004) argued that resilience made the difference between corporate life and death as it endured an extremely challenging episode of deadly food poisoning caused by its product. Stoltz, the founder and director of the Global Resilience Project,

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argued that the global business environment is forcing leaders to dramatically alter how they lead in the face of radical, permanent change (Stoltz, 2004). The author emphasized his claim that "only those leaders with the greatest resilience, the greatest ability to self renew and adapt proactively, will stand a chance to survive and to thrive" (p. 17). Avey, Avolio and Luthans (2011) aligned with the position that resilience is a requirement for organizational survival. Avey, et al (2011) presented an empirical field study of engineers in the aerospace industry. They demonstrated through survey and subsequent analysis that positive, resilient leadership behavior produced positive, resilient, productive behavior in followers. In an earlier study Luthans, Avolio and Avey (2008) utilized a survey of 132 employees from a broad cross-section of organizations and jobs and found by way of empirical analysis that resilience and its components of optimism and positive attitude are required for positive organizational performance.

Marwa and Zairi (2008) found that organizations with resilient leadership are able to survive during times of internal stress. This determination was made through a literature search on causes of corporate collapse and a web search of corporate demise. An attempt was made to compare the behaviors of failed organizations with negative organizational behavior described in literature. The authors found that organizations demonstrating some degree of resilience appeared to have slower decline or stated another way, were seemingly more protected than those having a lesser degree of observable resilience. The study by Marwa and Zairi used a methodology similar to that of this paper in that an attempt was made to compare resilient behaviors discussed in scholarly literature with demonstrated organizational and leadership behaviors.

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Warren Bennis is university professor and professor of business administration at the University of Southern California. He is the founding chairman of USC's Leadership Institute. Bennis was successor to Douglas McGregor as chairman of the organization studies department at M.I.T. He also taught at Harvard and Boston Universities.

Bennis (2003) supported the concept that the ability to survive is dependant on resilience and was quoted as saying, “Resilient people bounce back from and are improved by the adversity they face. Leaders learn by leading, and they learn best by leading in the face of obstacles. As weather shapes mountains, so problems make leaders” (Bennis, 2003, p.136). Stoltz (2004) argued that by focusing on learning and strengthening resilience, leaders can have a significant impact on their organization’s ability to succeed. Beer (1987) stated that organizations are not changing as a result of an internal vision driven by executive leadership but rather there are massive external environment and/or market shifts forcing the change. He came to this conclusion using case study analysis of Southwestern Bell, Bank of America and Honeywell. Beer (2007) argued that the role of leadership has traditionally been to recognize competitive pressures and to quickly and proactively translate them for employees into an agenda for change (Beer, 1987). Beer (2007) and Stoltz (2004) aligned in their conclusion that reacting to an external trigger may be adequate in some circumstances. The authors agreed that today, the speed of change is such that re-acting may be too late. Pro-acting is the new resilience requirement (Beer, 2007; Stoltz, 2004).

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History offers a perspective on the linkage between sustainability, resilience and the ability to improvise. Vera & Rodriguez-Lopez (2007) proposed the American Revolution as a case study of organizational improvisation. The authors drew this analogy by claiming that size of the revolutionary movement and the organization of the first American government were comparable with today's medium-sized companies. Through this analogy the issue of organizational structure helps to clarify the role that leaders play in the process. Vera & Rodriguez-Lopez (2007) discussed the skill of improvisation as enabling an organization to be nimble, flexible and responsive. In order to better understand the skills necessary for successful improvisation, the authors drew upon lessons learned during the American Revolution. 1) In improvisation, leadership is rotational and power is diffused; 2) Setting a strategic direction and minimal bureaucracy brings order out of chaos; 3) Leading improvisation requires fluid and consistent communication; 4) Leading improvisation is about balancing diversity and cohesion; 5) Determination and resilience are components of improvisational leadership; 6) Resilience enables leaders to cope with unexpected events, sustain momentum and functioning, and bounce back from adversity (Vera & Rodriguez-Lopez, 2007, p 304).

Hamel and Valikangas (2003) and Rodriguez-Lopez (2007) emphasized points regarding managing risks and reinvention and take a more proactive stance. Resilience is demonstrated by revision of goals and strategy in addition to adaptation to emerging opportunities and trends. The authors suggested that a key challenge which must be addressed in a resilient organization is the cognitive challenge. That is, a company's leadership must strive become free of denial, nostalgia and arrogance. Leadership must

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be deeply conscious of what's changing and perpetually willing to consider how those changes are likely to affect its current success. If renewal is to become continuous and opportunity-driven, rather than episodic and crises driven, companies need to embrace a mission that goes beyond operational excellence and flawless execution (Hamel and Valikangas, 2003).

Jim Collins' studies and teaches about great organizations. In 1995, he founded a management laboratory in Boulder, Colorado, where he conducts research and teaches executives from the corporate and social sectors. In the book, *How the Mighty Fall*, Collins (2009) presented a research grounded perspective on how decline can happen. Collins provided five phases of organizational decline. Stage 1: Hubris Born of Success, Stage 2: Undisciplined Pursuit of More. Stage 3: Denial of Risk and Peril. Stage 4: Grasping for Salvation Stage 5: Capitulation to irrelevance or death.

2.3 Organic Resilience

Literature suggested that resilient organizations demonstrate some qualities that are observed in resilient living organisms and some parallels may be drawn. Organizations are not inanimate structures, but rather are comprised of living organisms and as such they themselves can be viewed as living organisms. de Geus (1997), thirty eight year veteran of Royal Dutch Shell is a pioneer in the organizational learning movement. In his book, *The Living Company* (1997), de Geus provided insight into the failure of large organizations and what might be done to promote longevity. He suggested that large organizations and global institutions should be considered a new species. To support this

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new species, the global infrastructure (finance, distribution, supply, communication), the ecosystem within which it thrives, must expand along with it for support.

Peter Senge is the director of the Center for Organizational Learning at the MIT Sloan School of Management. In the book *Presence* (2005), Senge, Scharmer, Jaworski & Flowers (2005) argue that this new "species" is having a profound impact on most of the other species on the planet. This position is explained as follows:

> Historically, no individual, tribe, or even nation could possibly alter the global climate, destroy thousands of species, or shift the chemical balance of the atmosphere. Yet that is exactly what is happening today, as our individual actions are mediated and magnified through the growing network of global institutions. That network determines what technologies are developed and how they are applied. It shapes political agendas as national governments respond to the priorities of global business, international trade, and economic development. It is reshaping social realities as it divides the world between those who benefit from the new global economy and those who do not. And it is propagating a global culture of instant communication, individualism, and material acquisition that threatens traditional family, religious and social structures. In short, the emergence of global institutions represents a dramatic shift in the conditions for life on the planet (Senge, et al, 2005, p. 8)

The authors pointed out that this new species has the ability to grow, learn, adapt, and evolve. Looking at organizations as organic structures requires a change to the Industrial Age way of looking at business. Attempting to control and standardize organizations and their employees will cause an inability of these organizations to grow and evolve (Senge, et al 2005). Herbert Simon was a Nobel Laureate and professor at Carnegie Mellon University. In his book *Administrative Behavior*, Simon (1997) made reference to organizations as living entities as he spoke to the anatomy and physiology of the organization. He stated that the anatomy of an organization is found in the distribution

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and allocation of decision making functions (the org chart). The physiology of the organization is found in the processes whereby the organization influences the decisions of each of its members.

de Geus (1997) stated that as a species most commercial corporations exploit only a small fraction of their potential. He posited that "in the corporation, we have a species with a maximum life expectancy in the hundreds of years but an average life expectancy of less than 50 years" (de Geus, 1997, p. 2). de Geus observed that the average live expectancy of a multinational corporation is between forty and fifty years, based on the statistic that "one third of the companies listed in the 1970 Fortune 500 had vanished by 1983" (p.1). de Geus further observed that no other living species or institution such as armies, churches or universities, experience such a large gap between its maximum life expectancy and its average realization (p. 3). However, some organizations thrive for long periods of time. Long lived companies such as Beretta (500 years), DuPont (207 years), and Siemens (161 years) have adapted over time and endured. That is not to say that they have not changed. On the contrary, it appears that the ability to adapt, change, restructure, diversify, in other words, exhibit resilience, is at the foundation of these enduring organizations.

de Geus (2002) looked at organizations as living dynamic ecosystems comprised of diverse living people with a single cohesive identity and presents four characteristics of a living company: they have the ability to learn and adapt; they clearly know its character and identity; they understand how it interacts with people, other institutions and its

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environment; they know and understand its history and evolution (de Geus, 2002). Connectedness with other organizations and with the environment for mutual benefit is seen in resilient organizations. Resilient organizations appear to be sensitive to their environment; they remain in balance with the world around them (deGeus, 2002).

Margaret Wheatley received her doctorate from Harvard University and holds an M.A. in systems thinking from New York University. She is an organizational consultant and researcher. She writes, teaches, and speaks about how people and organizations can structure themselves to accomplish work in chaotic and turbulent times Wheatley's (1999) work aligns with that of de Geus (1997) and Senge et al (2005). Wheatley (1999) argued that organizations should look to nature to "teach us how to do what living systems do with such skill – learn, adapt, and change". Wheatley (1999) took an organic approach to management speaking of organizational connectedness in terms of a "New Science" of Management. In her writings, she reached out to the disciplines of physics, biology and chemistry. She spoke of management in terms of evolution and chaos theories linking scientific perspectives and organizational phenomena (Wheatley, 1999).

Wheatley (1999) explained organizational connectedness in terms of quantum physics. In the world of quantum physics, relationship is the key determinant of everything. Sub atomic particles come into form and are observed only as they are in relationship to something else. Fundamentally, particles do not exist independently. Even among simple cells, there is a recognition that they are part of a system; having a profound relationship between individual activity and the whole (Wheatley, 1999).

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Based on similarities between organic systems and organizational systems, it is proposed that the organic phenomenon of natural selection along with the danger of unchecked growth might be applied to organizations. Simplistically stated, Darwinian survival of the fittest declares that only the best and the strongest will endure. Enduring organizations continuously create new business opportunities. Living organisms must get rid of their waste or die. In living organizations, the dying ventures should be cut out, and the new opportunities should be exploited. This phenomenon was described by Joseph Schumpeter (1883-1850) with the concept of Creative Destruction. "Industrial mutation—if I may use that biological term—incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."

Retrieved on August 7, 2010 from http://www.econlib.org/library/Enc/CreativeDestruction.html

Speaking of the connectedness of organizations, Senge et al. (2005) made the analogy of the unchecked growth of "industrial age" organizations to the unchecked growth of cancer cells. In a living organism, cancer occurs when cells lose their "social identity and revert to growth for its own sake" with negative outcomes (Senge, et al, 2005). The case of Enron fits this profile exactly. Enron grew for its own benefit at the expense of the environment in which it existed. It grew like a cancer until it self destructed taking many down with it.

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2.4 Resilient Leadership

Sven Hanson is a medical doctor who studied preventative medicine, stress mastery, emotional intelligence and cognitive training. His key message was the imperative to integrate at the individual level, strengthening physical, emotional, cognitive and moral resilience. He links individual resilience to organizations and trains executives in the application of resilience. Hansen (2004) asked the difficult question of how an organization can make the choice between short-term play and long-term growth when leaders and organizations seem to be wired for short term results. Along with Hansen, several scholars and practitioners looked at the importance of resilience and sustainability from the perspective of the sum total of forces that affect a company's actions. de Geus (2002) provided leadership characteristics of a long-lived company: they are sensitive to their environment, remaining in harmony with the world around them; they react in timely fashion to the conditions of society around them; they are cohesive with a strong sense of identity; they are tolerant of activities on the margin: outliers, experiments, and eccentricities; they are conservative financing or the ability to govern its own growth and evolution effectively (de Geus, 2002).

In order to flourish in times of constant change, leaders must build skills in resiliency by broadening perspectives and competencies so that organizational, personal, and career changes can be absorbed and used to further leadership development. Research indicates that resilient leaders are foundational to resilient organizations as reported by Khandwalla (2004) through empirical analysis of leadership roles at the Indian Institute of

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Management. The work of Youssef and Luthans (2007), described earlier in this chapter aligns with this position.

Tobias (2004) drew on extensive foundational literature to bridge the fields of organizational culture, social and personality psychology, and psychiatry.
Tobias (2004) emphasized the "relationship between organizational enlightenment (the thriving organization) and personal maturity (the thriving person) and, in doing so, bears on attempts to create strong organizational cultures" (Tobias, 2004, p.3).

2.5 Resilient Culture

As researchers continue to attempt to articulate and quantify the resiliency characteristics which allow an organization to achieve longevity, it makes sense to take a step back to study enduring organizations. What are they doing right and are they demonstrating resilient behavior as we have defined it thus far?

Research done by Collins and Porras (2002), whose work is discussed earlier in this chapter, provided a framework for studying and analyzing enduring organizations. The results of their research were compiled in the book, *Built to Last*. In this book, enduring companies are described as "visionary companies." Visionary companies are defined as those companies that "prosper over long periods of time through multiple product life cycles and multiple generations of active leaders" (p 2). The ideas presented in their

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study align with the definition of resilience presented thus far. In fact, the authors state that visionary companies display the qualities of resiliency (Collins & Porras, 2002).

According to the authors, the foundation of enduring companies is not a specific idea, but rather the creation and sustainment of the company itself. Ideas and innovation come and go, they evolve and die, and economic opportunities are transient. Visionary companies take the position that above all, the company must endure. The concept here is that the ultimate creation is the company itself, an organization that contributes to the overall betterment of society. The organization is connected to the environment in which it exists. Its purpose for existence is not self serving. The company is created to produce something of value to a greater extent than could possibly be accomplished by its individual members. These are all behaviors and traits seen in the discussion of resilience.

The primary goal of the visionary company is not solely profitability or increasing stock holder wealth. While there is no doubt that an organization cannot exist without making a profit, profit alone is not the driving force behind the enduring organization. Profit will be made by driving to and upholding a core set of values or principles and a mission, the reason for existence. This aligns with de Geus' (2002) position that organizations die because their managers forget that that their organization's true nature is that of a community of humans interacting with the society in which they exist.

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Drucker (2002) agreed with the line of thought that organizations cannot exist for the sole purpose of monetary profit and expect to endure. Peter Drucker (November 19, 1909 – November 11, 2005) was a writer and management consultant. He explored how humans are organized across the business, government and the nonprofit sectors of society and is a widely influential thinker and writer on the subject of the theory and practice of management. In an interview in 2000, Drucker was asked about the Internet boom and the bust of the dotcoms and responds quite forcibly. "Many of these Internet start ups were not start ups of a business at all. They were just stock exchange gambles. If there were a business plan, it was only to launch an IPO or be bought. Not to build a business at all. And I am appalled by the greed of today's executive" (p 64).

Pragmatic idealism as described by Collins and Porras (2002) is the presence of two seemingly opposing forces within an organization: profit vs. value and purpose. de Geus wrote of this exact duality of behavior. He wrote that enduring organizations were found to be sensitive to their community and their environment. However, this sensitivity was not driven by social responsibility. It was driven by the living company's self interest (de Geus, 2002). This is one of several dualities that are apparent within enduring organizations. Another duality seen in long lived organizations is the constant pursuit of change and progress while maintaining a core reason for existence (Collins, 2009; de Geus, 2002).

The anchor or beacon seems to be the nature of the mission, the core values which frequently focus on contributions to society and the development of an enduring, and

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productive organizational structure and system of management. The opposing force of relentless quest for change implies a level of risk. However, the risk is taken only when it aligns with the stated core values and purpose. Such a risk can have a unifying, motivating and rallying effect. This risk is very different from a risk taken simply to increase bottom line profit.

2.6 Family Controlled Businesses and Resilience

Collins and Porras (2002) presented a research grounded perspective on enduring organizations that aligns with the concepts of resilience as described in this thesis. In their study, they selected 18 enduring organizations. The following describes the selection process followed by Collins and his research team:

> We surveyed a carefully selected representative sample of seven hundred CEOs from the following populations: *Fortune 500* industrial companies, *Fortune 500* service companies, *Inc. 500* private companies, *Inc. 100* public companies.
>
> To ensure a representative sample across industries, we selected CEOs from every industry classification in the *Fortune 500* listings, both service and industrial (250 from each). We asked each CEO to nominate up to five companies that he or she perceived to be "highly visionary." We received 23.5 percent response rate from the CEOs. We performed statistical analysis to confirm that we received a representative sample from all target populations.
>
> Using the survey data, we created a list of visionary companies to study by identifying the twenty organizations most frequently mentioned by the CEOs. We then eliminated from the list companies founded after 1950; we reasoned that any company founded before 1950 had proven itself to be more than the beneficiary of a single leader or a single great idea. We culled the final list to eighteen visionary companies to study (Collins & Porras, 2002, p.13).

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The 18 firms included in their study did not have flawless records. One of the factors that set them apart is the fact that they displayed resiliency through the difficult times; they endured. Other factors involved with the selection of the target organizations was that they attained solid long term financial performance (as of 2002 when the book was written) as well as becoming an integral part of society. In reviewing the history of these organizations an interesting fact comes to light. Of the 18 selected as visionary organizations, 11 (61%) were family controlled businesses. Family controlled businesses are defined as businesses where a family controls the largest block of shares or votes and has one or more of its members in key management roles.

- Citicorp
- *Proctor & Gamble (Family Controlled)*
- *Philip Morris (Family Controlled)*
- American Express
- *Johnson & Johnson (Family Controlled)*
- *Merck (Family Controlled)*
- General Electric
- *Nordstrom (Family Controlled)*
- 3M
- *Ford (Family Controlled)*
- IBM
- Boeing
- *Walt Disney (Family Controlled)*
- *Marriott (Family Controlled)*
- *Motorola (Family Controlled)*
- Hewlett-Packard
- *Sony (Family Controlled)*
- *Wal-Mart (Family Controlled)*

While Collins and Porras compared and contrasted these organizations looking for commonality, they did not mention the fact that 61% of their group is family controlled.

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What can family controlled organizations tell us about resilience and longevity?
Based on the following success measures, family controlled businesses tell an impressive story of longevity. Literature provides comparative studies between family controlled and non-family controlled organizations, suggesting that family controlled businesses are potentially longer lived (Anderson & Reeb, 2003; Miller & Le-Breton-Miller, 2005).

Miller and Le-Breton-Miller have published no less than 15 scholarly articles related to family run organizations. In the book, *Managing for the Long Run*, Miller & Le-Breton-Miller (2005), provided statistical evidence resulting from their multi-year case study and financial analysis to demonstrate that family controlled long lived organizations should be looked at closely as a group when considering organizational longevity. Family controlled organizations represent a sizeable percentage of organizations in the US and Europe. Anderson and Reeb have authored scholarly articles studying family owned businesses within the context of the S&P 500. Anderson and Reeb (2003) reported that when separating organizations into two categories, those less than 50 years old and those greater than 50 years old, it was found that in both groups, family run organizations outperformed non-family firms (Anderson & Reeb, 2003).

Anderson and Reeb (2003) reported that family controlled businesses represent over 30% of the S&P 500 industrials and Fortune 500 and, in such organizations; families own an average of 18% of their organization's equity. They account for over half the

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employment in the United States and 78% of new jobs created in the United States are by family controlled businesses (Anderson & Reeb, 2003).

The definition of resilience as presented in this paper underscores the fact that resilient, enduring organizations are not driven solely for profit. They have a vision that has a longer time horizon (Miller & Miller, 2005). The argument can be made that behaviors which promote longevity are in conflict with behaviors that drive to short term profits. In today's fast paced economic environment, many traders are looking for the quick profit. Some shareholders are traders who want to own the stock for a very short time, turning a profit quickly. They are looking for and will compensate executives and organizational leadership who will drive at the bottom line even at the expense of the company's long term health (Miller & Miller, 2005).

Far sighted executives act as stewards, not careerists. Those willing to be patient and have a longer term vision can reap benefits. Stewards take the position that profits can be made by holding long term investments. Long term vision takes into account the interests of all the stakeholders: employees, clients, partners and society (Miller & Miller, 2005).

Miller and Miller (2005) discussed the negative impact of "short-termism" or short sightedness. They found through case study and historical financial analysis that the social and economic costs of short sightedness include poor quality products, labor unrest, and negatively impacted communities. Miller and Miller (2005) indicated that family controlled, long lived organizations rally around a mission that has social and

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economic importance. Collins' work (2009) is aligned with this position, with the perspective that "great organizations keep clear the difference between their core values (which never change) and operating strategies and cultural practices (which endlessly adapt to a changing world)" (Collins, 2009 p. 182).

2.7 Long Term Vision / Stewardship

Vallejo (2009) demonstrated the need for commitment and stewardship in enduring organizations. Results of an empirical study measuring components of commitment and their relation to components of profitability show that the level of committed employees positively and significantly influences the profitability and the survival or continuity of family-owned businesses. In resilient, enduring organizations, risks are carefully managed. Ambitious, strategic goals are selected with the duality mentioned above. There needs to be present both the pragmatic component of profitability, and the idealistic component of adhering to the established values and purpose. There is no room for arrogance, denial or smugness. Enduring organizations have the discipline to confront the brutal facts of reality, whatever they are. They exhibit the ability to change strategic direction and demonstrate flexibility, with power given to a decision maker to make quick decisions. An organizational steward is driven to maximize organizational performance while satisfying the competing interests of shareholders (Vallejo, 2009).

Collins (2009) referred to this concept of stewardship as "Level 5 Leadership". These leaders are not ambitious for their own sake, but rather are primarily ambitious for the

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organization (Collins, 2009). Davis, Schoorman and Donaldson (1997) drew on a deep literature review to contribute to the theory of stewardship by providing clarity around the concept of stewardship as it relates to long lived organizations. In addition, they described the psychological and situational mechanisms that motivate stewards to behave in support of the organization. The stewardship theory as presented by Davis, Schoorman and Donaldson (1997) is based on the behavior of the manager whereby his or her organizational behavior has a higher value than his individual self serving behavior. Given a choice between self-serving behavior and pro-organizational behavior, the steward will choose to serve the organization. The steward realizes the trade off between personal needs and organizational objectives and believes that by working toward organizational ends, personal needs are met. Stewards believe that their interests are aligned with those of the organization and its owners. The steward's interests are directed to organizational rather than personal objectives (Davis, Schoorman and Donaldson, 1997). Enduring organizations have leaders who behave more as a steward than an agent. They are more focused on the health of the organization itself than on self serving profits.

2.8 Resilience and the Danger of Over-Confidence and Hubris

The "Icarus Paradox" is used by Miller and Miller (2005) to describe successful organizations that seem to bring about their own decline. The Greek mythological figure Icarus had wings made of feathers held together with wax. Although he was highly skilled in flying, Icarus was warned not to fly too close to the sun. Icarus ignored the

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risks and continued his upward climb. His wings eventually melted and he fell into the sea and drowned. Similarly, organizations can become overconfident, and blind to risks. Interestingly the extension of the factors that contributed to their success actually takes them to the point where decline begins. It's a case of "too much of a good thing", making them victims of their own success (Miller & Miller, 2005). Such organizations take on too much risk with a short term focus on the bottom line and misaligned incentives. As will be seen in the case study that follows, Bear Stearns is an example of this phenomenon.

Hegemony is unfair influence over others by a dominant group often seen in a monopolistic situation. Drucker (2002), the management thinker mentioned previously in this chapter, spoke of the Greek philosopher Thucydides when asked about monopolies. According to Drucker (2002), Thucydides wrote that hegemony kills itself. "A hegemonous system is very self destructive. It becomes defensive, arrogant and a defender of yesterday. It destroys itself. Therefore, no hegemonic monopoly in history lives for very long." (Drucker, 2002, p. 72)

Overconfidence is sometimes defined in moral terms such as arrogance and hubris. At the beginning of the learning curve, people tend to second guess their judgement. As they move on, decisions become more certain. At the top of the curve, when they are considered (or consider themselves) an expert, people are at risk of thinking they know it all, that there is nothing left to learn. If not controlled, this can be a dangerous situation leading to over-confidence, hubris and ultimately erroneous decisions.

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There are advantages to being confident. In some competitions as well as business scenarios, confidence is essential to winning. Just pretending to be stronger is not effective (Fenton-O'Creevy, Nicholson, Soane & Willman, 2003). Through a thorough scholarly literature review followed by empirical analysis of suvery responses by financial traders, the authors determined that there is a fine line between confidence and overconfidence. Confidence implies a realistic trust of one's ability, while over confidence usually implies an overly optimistic assessment of one's knowledge or control over a situation (Fenton-O'Creevy, et al., 2003).

Baumeister, Heatherton & Tice (1993) studied over-confidence and over-optimism relative to financial markets (Baumeister, Heatherton & Tice, 1993. Baumeister and Tice are psychologists out of Case Western Reserve University. Heatherton is a psychologist out of Harvard University. They have collaborated in their study of self-regulation and self-management in individuals and based the findings presented in the cited paper on extensive literature review and their studies relating self-esteem to self-management. Based on previous research indicating that a favorable self-image is associated with superior adaptation, the authors set out to study on the impact of high self-esteem (ego) on decision making capacity. Their study showed that people with high self-esteem showed superior performance on a complex self-regulation task. In addition, they found that an ego threat disrupted the self-regulatory effectiveness of people with high self-esteem. "Faced with such a threat, these people seemed to allow self-enhancing illusions to affect their decision process and hence committed themselves to goals that they were

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not able to meet. High self-esteem may be subjectively pleasant and often advantageous, but allowing positive illusions to influence one's decision and commitment processes can be a recipe for failure" (Baumeister, et al, 1993, p. 154). The authors concluded that over-confidence can be difficult to control in high expertise fields such as finance because in this field it is sometimes beneficial to be highly confident. Confidence is a characteristic of resilient leadership. However, as demonstrated in the Bear Stearns case study presented in this chapter, over-confidence can undermine resilience.

2.9 Case Study of Bear Stearns and JPMorgan

The intent of this section of the paper is to look at the leadership and culture of two financial institutions involved in the financial crisis: Bear Stearns, and JP Morgan. Bear Sterns met its demise while JP Morgan thrived. Using the principles of classic management theorists as a foundation, this study will demonstrate that breakdown of resilient leadership, compounded by a culture of unbridled risk in its last years were contributing factors in the failure of Bear Stearns.

Based on scholarly literature as presented previously in this study, the predominant characteristics of resilient organizations include the ability to proactively and continually assess and adjust strategy in response to a rapidly changing business and social environment. Enduring organizations adapt business strategy as necessary; keeping the organization's existence as their highest priority. The focus is on the organization, not the individual leaders. Similar to a living organism, resilient organizations are interconnected

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with the system to which they belong; they exist in relationship with the entities of the broader system. Resilience can be undermined by hubris.

Using case analysis and content analysis, evidence based research will demonstrate the linkage between resilience and organizational survival and, in contrast, organizational failure resulting from a breakdown in resilience as defined in this study.

A case study is presented for each firm followed by comparative analysis of corporate communications with a focus on shareholder letters. According to Yin (2009), when used in qualitative research, the strength of case study research is that it brings us to an understanding of a complex issue object and can add strength to what is already known through previous research. Frequently, case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

Over the years, the stock market has had its booms and busts. The Great Depression had devastating effects from Wall Street to Main Streets around the world. The fact that a financial crisis occurred in 2008 is not extraordinary. However, the circumstances of this particular economic cycle provide an interesting opportunity for a point in time comparative analysis of two financial institutions with very different outcomes. Bear Stearns failed in March of 2008 as a result of the financial crisis. JPMorgan endured, ultimately taking over Bear Stearns for a bargain price. These two firms are the subjects of the case studies to be presented in this paper. The case studies will tell of two very

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different organizations from the perspective of organizational resilience as demonstrated through their leadership and culture.

Bear Stearns was selected for study because of its history of steady growth through the years, its unusual culture and the drama surrounding its last days. There are large amounts of information and opinion describing the fall of Bear Stearns. Some of the books studied for this case study were written by former employees such as Bill Bamber, former Senior Managing Director at Bear Stearns, who definitely has a strong opinion. Also reviewed are books written by financial analysts and economists such as Dave Kansas, Mark Zandi and George Cooper; and books written by financial journalists such as Kate Kelly, William D. Cohan, Charles Gasparino and Gillian Tett. Included as additional sources of information relative to Bear Stearns' leadership and culture are the books written by Bear's Chairman Alan Greenberg. Interviews with Bear Stearns' senior leaders were included as a primary source of information. For the purpose of this study, it was important to attempt to get a balanced perspective by including a variety of books and articles as well as reviewing interviews and news reports as noted in Appendix K as well as the reference section of this paper. Where appropriate, multiple authors are cited as contributing to a particular perspective for validation.

An equally broad range of books, articles and videos was drawn upon in an attempt to present a balanced perspective of JPMorgan. As will be presented in the case study, CEO Jamie Dimon demonstrated resilience from the perspective of both his personal story as well as his leadership through the financial crisis.

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A brief background of the authors and justification for inclusion in this paper can also be found in Appendix K.

In addition to the literature search and case study, the third methodology used in this study is content analysis. A literature review supporting the use of content analysis is presented in the content analysis section of this chapter. The language used in communications by the CEO and senior leadership of an organization offers a view of their thoughts regarding where they are taking the firm. A CEO's words can be powerful storytelling tools. They offer opinions and communicate the culture and strategic direction of the firm. Geppert and Lawrence (2008) as well as Amernic and Craig (2007) have done extensive studies on the correlation of the language of leaders as presented the CEO's letter to shareholder by closely studying narratives and aligning the narratives with leadership behaviors and corporate performance. Geppert and Lawrence (2008) indicate that the discretionary communications such as the letter to shareholders contains important information about how management wants to convey the image of the organization. The public language of CEOs in speeches, letters to shareholders, annual reports, and internet blogs provides discretionary insight to company policies, strategy, commitment, attitudes and accountability (Amernic & Craig, 2007).

Letters to shareholders are not mandated or regulated and the content is controlled by management. The shareholder letter has the potential to influence shareholder perception

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of corporate value by giving insight into future initiatives. Justifying language might be used to temper negative news or soften a future negative event.

Using the computer program *Concordance*, the letters to shareholders of Bear Stearns and JPMorgan have been examined for differences in context and tone. *Concordance* text analysis software is used to study texts closely or analyze language in depth. (http://www.concordancesoftware.co.uk/) The tool allows for the study of words within context by providing the words before and after the target word. The benefits of this tool are described further in the content analysis section of this paper. Use of content analysis techniques to analyze shareholder letters illustrated the differences in the tone of messages from Bear Stearns as the organization that ultimately failed and those of JPMorgan as the enduring financial organization.

2.9.1 Case Study: Bear Stearns

The Economic Backdrop

The subprime crisis was closely linked to the collapse of a debt-fueled boom in residential real estate (Cooper, 2008; Zandi, 2009). In early 2006, as house prices began to fall and the opportunity to sell houses at a profit began to fade, speculators and risky borrowers started defaulting in rising numbers. The impact of those defaults became apparent in November 2006, triggering bank failures and investment bank losses in the first half of 2007. A liquidity crunch in subprime mortgages began: market values dwindled along with investment demand for them. Mortgage loan originators lost money

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or went bankrupt or both, as property values dropped. Rating agencies sharply downgraded the credit rating of subprime mortgage-backed securities. Hedge funds that had specialized in those securities reported large losses and began to close (Zandi, 2009).

In the summer of 2007, fears rose about the stability of banks. These fears were realized when, in the fall of 2007, banks reported large loan write-offs and closed special investment vehicles that specialized in subprime loans (Bamber & Spencer, 2008; Morris, 2008; Zandi, 2009). Due to concerns about financial stability due to the amount of mortgaged backed securities held by Bear Stearns, the bank was unable to fund their business transactions over the course of four days in March 2008 driving the stock price sharply down. JPMorgan offered to buy Bear for $2 per share to prevent the need to declare bankruptcy. The final agreed upon price was $10 per share (Zandi, 2009).

Through the summer of 2008, rising mortgage defaults and deteriorating mortgage values continued to put pressure on financial institutions. Rating agencies continued to downgrade the credit rating of mortgage products. The U.S. Treasury and Securities and Exchange Commission took action to relieve pressures on Fannie Mae and Freddie Mac, the government-sponsored mortgage investors, who were the focus of rumors of instability (Bamber & Spencer, 2008; Zandi, 2009).

In early August, 2008, the Federal Open Market Committee, a unit of the Federal Reserve, declared that the downside risks to growth had increased appreciably (Zandi, 2009; Morris, 2008). The credit crisis spread beyond mortgages. Banks stopped inter-

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corporate loans, waiting to see which parties were solvent and would survive the crisis. Measures of lender anxiety such as risk premiums and premium for credit default swaps rose sharply.

In September 2008, the US government assumed direct control of Fannie Mae and Freddie Mac. On September 15, Lehman Brothers, one of the largest investment banks, unable to self-fund and having failed to find an investor, a buyer, or government guarantees, declared bankruptcy. The failure of Lehman and the government's decision not to rescue the firm sharply raised investor fears. In response, the stock marked dropped further.

September 22, 2008 saw the end of the era of large integrated investment banks in America, with the announcement that Goldman Sachs and Morgan Stanley, the two remaining investment banks, were applying to become bank holding companies. On September 25, regulators closed Washington Mutual Bank and sold its operations to JPMorgan. Within a few weeks, the financial services industry in the US had been transformed. By the end of 2008, the financial crisis had affected markets, industries, and assets of millions of investors and depositors.

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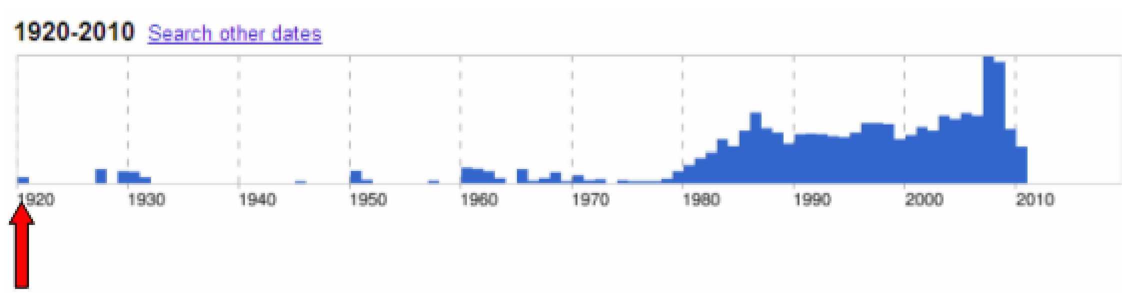
Bear Stearns 1923 – 2008



Bear Stearns relative value timeline
(Retrieved May 2010 from
http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

Bear Stearns was formed as an investment management company through the partnership of Joseph Bear, Robert Stearns and Harold Mayer in 1923 with a combined sum of $500,000. The three founders took advantage of the market for government securities during the pre-depression years. The early years were prosperous ones. However, in 1929, everything changed with the stock market crash. (Bamber & Spencer, 2008; Gasparino, 2009).

During the depression years, Bear Stearns continued to prosper due to careful management (Bamber & Spencer, 2008; Cohan, 2010; Greenberg, 2010). The company did not lay anyone off and continued to pay bonuses. Bear Stearns began to develop a reputation as an organization with a very different type of culture. Independent, scrappy, bold, maverick, bare knuckled, stellar in downturns, moxie, The Sparta of Wall Street are some of the descriptors used to define Bear Stearns (Bamber & Spencer, 2008, Cohan, 2010, Cooper, 2008, Kelly, 2009, Tett, 2009).

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As a result of the stock market crash, the Glass-Steagall Act was passed in 1933. When the market crashed, banks and their depositors were devastated. The Glass-Steagall Act separated investment and commercial banking activities. At the time, "improper banking activity" was considered the main cause of the crash. The thought was that banks took on too much risk with depositor's money. (Retrieved June 18, 2010 from http://investopedia.com/articles/03/071603.asp)

After the crash, Bear Stearns defined itself as an investment bank in accordance with the Glass-Steagall regulations. In 1999, the regulations changed, opening the door to the opportunities and the risk of sub-prime mortgages. The Gramm-Leach-Bliley Act (also known as the Financial Services Modernization Act or The Financial Services Act of 1999) was signed into law in 1999 (See Appendix B). This act repealed part of the Glass-Steagall Act of 1933. (See Appendix B) There has been debate as to whether the Gramm-Leach-Bliley Act led to the deregulation that contributed to the financial crisis of 2008. The bill allowed for the creation of financial supermarkets that could own investment banks, commercial banks and insurance firms. The combination of services had been prohibited by the Glass-Steagall Act. (Retrieved June 18, 2010 from http://online.wsj.com/article/SB123665023774979341.html)

Bear Stearns demonstrated steady growth under the leadership of Salim L. "Cy" Lewis and Alan C. "Ace" Greenberg. Under the leadership of James E. "Jimmy" Cayne, Bear Stearns took advantage of opportunities presented by the current financial regulations and

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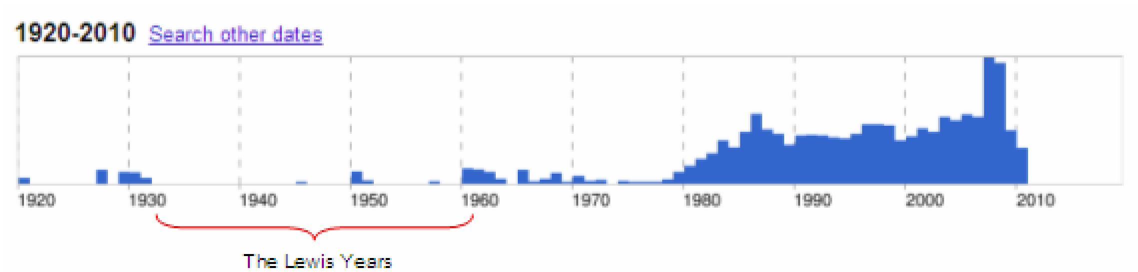
became increasingly involved in high risk transactions resulting in soaring profits. Bear Stearns did not react to economic indicators that became evident during the Cayne years. Arrogance; over-confidence and a sense of invincibility seemingly interfered with strategic decisions around risk (Bamber & Spencer, 2008; Greenberg, 2010). While the culture of Bear Stearns was manifest in driving profits, the risk management practices of the pre-Cayne years seem to be undermined by the lure of higher profits (Bamber & Spencer, 2008; Greenberg, 2010). Based on the definition of resilience as presented in this paper, Bear Stearns exhibited a breakdown in resilience in both leadership and culture.

Bear Stearns' Leadership
The Founders: Joseph A. Bear, Robert B. Stearns, Harold C. Mayer

The original founders of Bear Stearns navigated through the Great Depression better than most organizations, remaining profitable, avoiding layoffs and paying bonuses (Cohan, 2010, Bamber & Spencer, 2008). During this time they grew from seven employees to seventy-five and increased its capital 60% (Bamber & Spencer, 2008). In 1933 Cy Lewis was hired at the age of 24 to start a corporate bond business.

Salim L. (Cy) Lewis



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Bear Stearns relative value timeline
(Retrieved May 2010 from
http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

Lewis is credited with driving the growth of Bear Stearns from a small start up to a serious financial institution. Cy Lewis started out as a shoe salesman but had visions of working on Wall Street. Working as a car attendant at North Shore Country Club on Long Island, a Jewish country club, he met Herbert Salomon, president of Salomon Brothers. He started out on Wall Street as a runner delivering bond certificates to different Wall Street firms. He quickly moved on to join the sales and trading department.

Due to his forceful and outspoken nature, Lewis was fired from Salomon Brothers. He was then hired and fired by Barr, Cohen & Co. Two more hiring and firings took place before he landed at Bear Stearns. In 1933 Cy Lewis joined the firm, becoming a partner in 1938, a managing partner in the 1949 and then chairman. Lewis was an icon on Wall Street and under his tutelage the company flourished into one of the most prestigious and influential brokerage and investment banking firms on Wall Street (Cohan, 2010).

Cy Lewis Key Dates:

- 1933 Salim L. “Cy” Lewis joins Bear Stearns
- 1938 Cy Lewis become a partner
- 1949 Managing Partner
- 1960s-1978 Chairman
- 1978 Died during his retirement party of a massive stroke

Current Years: Alan “Ace” Greenberg, James “Jimmy” Cayne, Alan Schwartz

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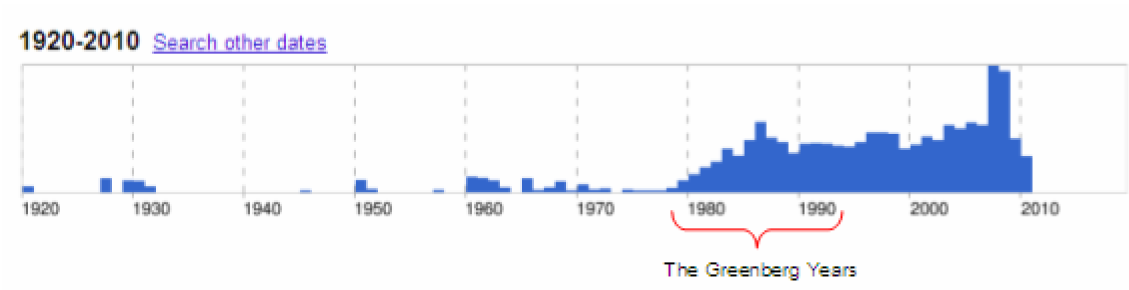
> "The House that Ace built, Jimmy Cayne remade and Alan Schwartz tried to save" (Gasparino, 2009, p. 389).

Bear Stearns (see Appendix B) at its peak, was the fifth-largest U.S. investment bank in 2007. It was an 85 year old financial institution that managed through very challenging financial conditions including: the Great Depression, World War II, the 1987 market crash and the 9/11 terrorist attacks. Until the very end, the firm had never had a losing quarter in its history. However, in the months following 9/11, Jimmy Cayne and his senior management team, including Alan Greenberg, Warren Spector and Alan Schwartz would sow the seeds of the firm's destruction by betting heavily on the manufacture and the sale of mortgage-backed securities (Gasparino, 2009). In the short run, the decision by Bear's executives to become a leader in this business resulted in huge profits for the firm - and massive paychecks for them. Along with bankers at Lehman Brothers, Merrill Lynch and Morgan Stanley, they were willing to capitalize on the mortgage boom that occurred in the wake of 9-11 when the Federal Reserve loosened the money supply. (Cohan, 2010)

Alan "Ace" Greenberg CEO/Chairman: 1978-1993



Bear Stearns relative value timeline
(Retrieved May 2010 from http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

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Under Greenberg's control, Bear's growth and profits grew quickly. At its peak it employed almost 15,000 people. While most Wall Street firms preferred to hire Ivy Leaguers, Greenberg looked for people with "PSD" degrees, by which he meant "poor, smart, and a deep desire to become rich." As a hiring practice, Bear Stearns would hire traders either laid off or fired by other financial institutions if they met the PSD criteria. Along the way, he developed a disciplined style of investing—"unload losers, ride winners" (Greenberg, 2010).

Alan Greenberg Key Dates

- 1949 Joined Bear Stearns
- 1978 - 1993 CEO / Chairman
- 1993 Forced from the CEO role by fellow Bear Stearns executive Jimmy Cayne
- 1993 - 2001 Chairman
- 2001 Cayne took over Chairman role
- 2001-2008 Executive Committee Chairman.

Greenberg had a distinct management and business philosophy which contributed to the Bear Stearns culture. Risk management and warnings of over-confidence punctuated his leadership style (Bamberg & Spencer, 2008; Cohan, 2010; Greenberg, 1996; Greenberg, 2010). Greenberg provided the following guidance to Bear Stearns' employees.

- Encouraged employees to be aggressive, but never reckless- risk-takers

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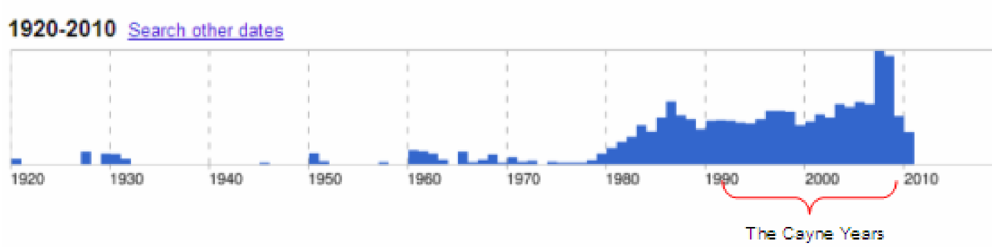
- Encouraged employees to look for opportunities to take risks that had a high potential payoff, but he also required that losses be taken quickly when things did not go as planned
- Kept small losses from turning into big ones
- Made sure Bear Stearns never took risks that could jeopardize the survival of the company

(Greenberg (1996), Greenberg (2010))

James Cayne CEO: 1993-2008



Bear Stearns relative value timeline
(Retrieved May 2010 from
http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

Under Cayne's leadership, Bear's stock rose from $16 per share to a high of $172.

In 2006, Cayne received $34 million in pay and was the first Wall Street CEO to own a stake in a company worth more than $1 billion (Kelly, 2007).

Jimmy Cayne Key Dates:

- 1969 Hired by Ace Greenberg as a retail broker
- 1993 Becomes chief executive

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- 2001 Assumes chairman role from Greenberg
- 2008 James Cayne resigned as CEO in January 2008. He remained the Chairman of the firm's Board of directors.

Bear's Final Months

Retrieved August 7, 2010 from
http://www.marketoracle.co.uk/images/2008/BearStearnsSoldFor2Bucks.jpg

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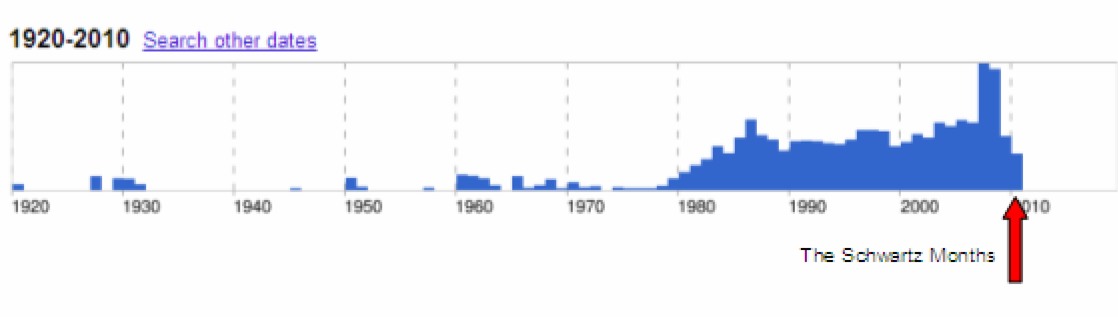
Alan Schwartz CEO: January 2008-March 2008



Bear Stearns relative value timeline
(Retrieved May 2010 from
http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

Alan Schwartz, Bear Stearns' head of investment banking, stepped up to the CEO role when Bear's board accepted Cayne's resignation after the firm's first quarterly loss in its eighty five year history (Cohan, 2010). Alan Schwartz was at the helm when Bear was sold to JP Morgan in March 2008.

Bear Stearns' Unique Culture

The book, *Memos from the Chairman* (Greenberg, 1996), is a collection of memos from Alan Greenberg to his associates over the course of his chairmanship from 1978 to 1996. The memos were a vehicle to deliver inspiration, guidance and mandates. They provide an interesting glimpse into the culture of the organization during the Greenberg years. In

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his own words, Alan Greenberg states, “These memos…may give you some idea of our growth and the fun we had participating in the further building of Bear Stearns. Although they seem to have been written in jest, I can assure you that the points I was trying to make in these communications were things I believed in very strongly and still do. There are many ways to run and build a firm. I used those memos to express my philosophies and, in our case, I think they worked” (Greenberg, 1996, p.11)

Greenberg used an alter ego personality, the ficticious philosopher Haimchinkel Malintz Anaynikal, to deliver many of his provocative and inspiring messages. As one reads through the memos, it is very clear that during this time frame, Bear was very successful. Almost every month is highlighted by recognition that the current month was, in Greenberg’s opinion, the “best month in the history of Bear Stearns” (Greenberg, 1996).

Greenberg spoke frequently about the danger of ego, of hubris clouding the trader’s minds, causing foolish mistakes. A warning given by Haimchinkel Malintz Anaynikal repeatedly over the years was “thou will do well in commerce as long as thou do not believe thine own odor is perfume” (Greenberg, 1996, p.13). Some of the rules laid out by the “Dean of Business Philosophers”, the title given to the ficticious philosopher Haimchinkel Malintz Anaynikal, were seen repeatedly in Greenberg’s memos:

1. Stick to thine own business
2. Watch thy step
3. Limit thy losses
4. Watch thy expenses like a hawk
5. Stay humble, humble, humble
6. When dealing with a new account, know thy customer (Greenberg (1996))

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What made Greenberg different from Lewis before him was his appreciation for risk. Like other financial institutions, Bear was highly leveraged. However, based on interviews, Gasparino learned that Greenberg considered risk a necessary evil to be contained and managed (Gasparino, 2009).

Greenberg was an avid bridge player, having won the Reisinger Board-a-Match Teams in 1977. In 1981, he won the Maccabiah Games teams bridge tournament, part of the quadrennial Jewish Olympics, and was second in the Reisinger later that year. Greenberg is also a member of the Society of American Magicians. (Retrieved June 9, 2010 from http://people.forbes.com/profile/alan-c-greenberg/84254).

During the Cayne years, Bear expanded. Its stock price rose nearly 600% and the firm and its clients prospered (see Relative worth timeline Appendix 1). Analysts attributed Bear's prosperity to Cayne's leadership (Gasparino, 2009). He had steered Bear through the dot-com years when many firms competed for the technical start ups financial banking work. During the challenging years toward the end of the 1990's, Bear's stock fell due to its inability to compete with Morgan, Goldman, or Merrill in taking Internet companies public. Jimmy Cayne made public his intention to consider selling the firm. The stock turned positive. After the 9/11 terrorist attack, Bear benefited from lower interest rates put in place by the Federal government. The lower rates had the effect of pushing up mortgage bond rates (Gasparino, 2009).

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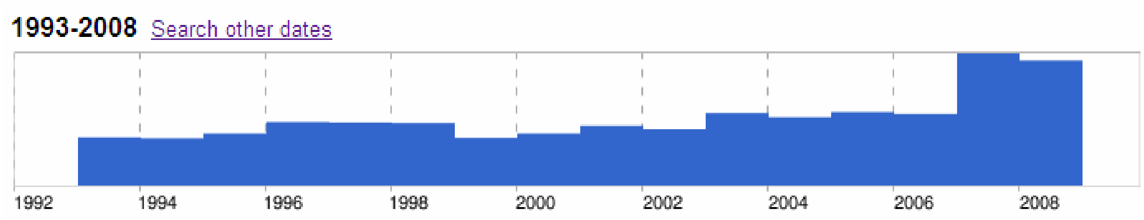
Between 1998 and 2006, Bear Stearns' inventory of risky asset and mortgage debt grew to more than 300% as its leverage peaked at 40 to 1. This increased risk went unchallenged by the normal risk management checks and balances. The stock price continued its climb to a high of $172 as seen in the relative value chart below.



Bear Stearns relative value timeline
(Retrieved May 2010 from
http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=)

The board of directors did not challenge the increased risk taking practices. Journalist Charles Gasparino asked a board member why the board did not challenge Bear's risk taking strategy. "In retrospect we should have", one board member said. "But the firm was doing so well." Gasparino asked Cayne if his board would force him in a direction contrary to his wishes. Cayne responded saying, "My board is *my* board" (Gasparino, 2009, p.215).

Cayne's ego and confidence were self proclaimed and frequently reported in the news. In an interview with *New York Times* reporter, Landon Thomas, Jr., Cayne demonstrated his highly confident opinion of Bear Stearns. "We are hitting on all 99 cylinders, so you have to ask yourself, what can we do better? And I just can't decide what that might be." He continues, "I'll tell you what worries me, that we might be doing something stupid (NY Times 2003) "Distinct Culture at Bear Stearns helps it surmount a grip market"

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(Retrieved June 12 from http://www.nytimes.com/2003/03/28/business/distinct-culture-at-bear-stearns-helps-it-surmount-a-grim-market.html)

Soon after becoming CEO, Cayne commissioned a report from PricewaterhouseCoopers to describe the Bear Stearns' corporate culture. According to Gasparino, the report discussed Cayne's skills at bridge and how he used these skills to build a great American investment bank. The report spoke of his "big, successful New York City Bond bet and how he used his instinct and judgment to bet big and win as he did in his bridge tournaments…The report was mostly a tribute to Cayne and his alleged brilliance as a manager and as a risk manager" (Gasparino, 2009, p. 114). The study presented Cayne's response to challenges that the firm was taking on more risk and brought up the possibility of a "catastrophic event imploding one or more of the big Wall Street brokerage houses. Jimmy's response was immediate and confident: If the industry goes so will Bear Stearns. However we will be the last standing. Our deliberate approach to growing such businesses and our controls ensure our continued stability" (Gasparino, 2009).

Cayne was often cited as spending significant time away from his office involved in other pursuits. He was frequently away playing bridge, golfing, or spending time eating out (Cohan, 2010, Gasparino, 2009, Greenberg, 2010, Kelly, 2009).

A tabloid-like article appeared in the *Wall Street Journal* on November 1, 2007. Without citing references, it spoke of Cayne's questionable behavior throughout the hedge fund crisis during the summer of 2007. The article damaged Cayne's credibility and brought

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embarrassment to Bear Stearns by referencing his absenteeism as well has his habit of smoking marijuana.

> "During 10 critical days of this crisis -- one of the worst in the securities firm's 84-year history -- Bear's chief executive wasn't near his Wall Street office. James Cayne was playing in a bridge tournament in Nashville, Tenn., without a cell phone or an email device."
>
> "In summer weeks, he typically left the office on Thursday afternoon and spent Friday at his New Jersey golf club, out of touch for stretches, according to associates and golf records. In the critical month of July, he spent 10 of the 21 workdays out of the office, either at the bridge event or golfing, according to golf, bridge and hotel records."
>
> "Witnesses said that Mr. Cayne has sometimes smoked marijuana at the end of the day during bridge tournaments. He also has used pot in more private settings, according to people who say they witnessed him doing so or participated with him." (Kelly, 2008, pp. 153-159)

In March 2008, as the fatal blow was about to hit, Cayne was reportedly at another bridge tournament, this time in Detroit, where once again he was unreachable because he didn't carry an email device (Gasparino, 2009).

Accountability: In Their Own Words

> "As leaders of institutions we know that what we say will be heard as the embodiment of our institutions. Our words are never incidental. They always contribute to the larger narrative that tells our institution's story ..." (James Cuno, President of the Art Institute of Chicago and former Director of the Harvard University Art Museums) (Amernic & Craig, 2007)

In the days leading up to the implosion of Bear Stearns, CEO Alan Schwartz and Alan "Ace" Greenberg made attempts to instill investor and employee confidence in the

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stability of Bear Stearns. As rumors of instability were brewing, the "confident" words of Greenberg and Schwartz were sounding empty.

Greenberg's words as reported by David Farber (CNBC) March 10, 2008 Six Days before the collapse:

> Bear Stearns' Alan "Ace" Greenberg, a former chief executive who currently serves as chair of its executive committee, told CNBC that the liquidity rumors surrounding the company are "totally ridiculous."
> "It's ridiculous, totally ridiculous," he told CNBC. Greenberg's comments came after Bear Stearns shares had fallen more than 11 percent to their lowest level in five years. Bear Stearns shares, which have since regained some lost ground, have shed nearly 30 percent since the end of January."

Retrieved May 20, from http://www.cnbc.com/id/23561058

Excerpts from an interview: Alan Schwartz's words as spoken to David Farber March 12, 2008 four days before the collapse:

> "There is no truth to liquidity concerns.
> Counterparty risk is not a problem.
> There are no problems. None of the speculation is true.
> Liquidity and Balance Sheet are strong.
> Liquidity cushions remain unchanged.
> No pressure on Liquidity.
> The situation in time will stabilize."

On March 13, 2008, three days prior to collapse, despite the falling stock price, Schwartz told his executives at lunch, "This is a whole lot of noise." By end of day, Bear's cash reserves are down to $3.5 billion from $17 billion just a few days earlier. (Kelly, 2008)

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After the fall – Defending the Past

After the collapse of Bear Stearns, leadership repeatedly claimed that they didn't see the crisis coming. Although they were trading high risk securities and making tremendous profits, they did not seem to notice that their foundation was crumbling beneath them.

On May 27, 2008, Schwartz blamed the crisis on a market tsunami he didn't see coming. He told a Senate committee: "I just simply have not been able to come up with anything, even with the benefit of hindsight, that would have made a difference."

(Kelly, 2008) Retrieved May 24, 2010 from

http://online.wsj.com/article/SB121184521826521301.html

On May 5, 2010, 10:18 AM ET Cayne delivered a testimony to the Financial Crisis Inquiry Commission. He remained firm in his position that he did not see the disaster coming; that actions taken by Bear Stearns' did not lead to the collapse and that there was nothing they could have done to avert the disaster.

> "Subsequent events show that Bear Stearns' collapse was not the result of any actions or decisions unique to Bear Stearns. Instead, it was due to overwhelming market forces that Bear Stearns, as the smallest of the independent investment banks, could not resist. Only a few months after Bear Stearns collapsed, the same market forces caused the collapse and near collapse of much larger institutions, such as Lehman Brothers.
> The efforts we made to strengthen the firm were reasonable and prudent, although in hindsight they proved inadequate. Considering the severity and unprecedented nature of the turmoil in the market, I do not believe there were any reasonable steps we could have taken, short of selling the firm, to prevent the collapse that ultimately occurred."

Retrieved May 24, 2010 from http://blogs.wsj.com/deals/2010/05/05/read-jimmy-caynes-testimony-no-apologies-here/

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Greenberg suggested that the full blame for Bear's demise lay with Cayne. In his book, "The Rise and Fall of Bear Stearns", Greenberg indicated that he was not aligned with Cayne's decisions.

> "Over the years, when various partners confided to me that Jimmy was egotistical and devious, I had little patience for anyone's complaints. For the sake of the firm, I strongly felt that personality differences had to be subordinated to our larger goals. I'm not proud of that fact – given where Jimmy's stewardship would eventually terminate. But just as no one ever truly knows how the market will behave on a given date in the future, I had no way of foreseeing that Jimmy's foibles would lead us to our ultimate destination" (Greenberg, 2010, p. 104).

Despite his feelings about Cayne, Greenberg and the other executive committee members prospered during the Cayne years. They accepted huge cash bonuses that resulted from management decisions in the years before Bear Stearns collapsed. They also sold Bear Stearns stock at artificially high prices in the years before Bear Stearns collapsed, again making more money (Gasparino, 2009). Whether Greenberg challenged Cayne behind closed boardroom doors is open to speculation.

In a *Frontline* interview on December 15, 2008, Greenberg indicated that he had concerns about Bear Stearns' risky investment practices. He stated that he should have been more vocal in his concerns but wasn't. In fact, Greenberg presided over and was responsible for risk management.

> Interviewer Question: So when all this is happening and people are making money hand over fist and doing real well, and the market is growing, are you ever nervous?

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> Greenberg: I was, and I felt some things were going on that were just nuts. Some of the demands our clients were making upon us I thought were just unbelievable.
>
> They would just ask you to run risks that you didn't want to run or shouldn't run. On the other hand, in theory, you couldn't afford to offend your biggest clients; they wouldn't do business with you anymore. So that was a problem. Our biggest clients obviously were the ones who were buying and selling these corporations, creating debt maybe that was in excess of what the company could support.
>
> But I wasn't as vociferous as I should have been, maybe. It's very hard to stop a locomotive going 60 miles per hour. It takes a lot of braking power to stop that. And this stuff was highly lucrative when it was working. Excesses did occur. Deals were done that were just too big for the companies they were buying. And you read about the ones that are in big trouble that were done [over] the last two years. The equity has gone entirely and maybe even more. So did I know things were getting a bit out of hand? Yes. Was I as vociferous as I should have been? Maybe not.
>
> Interviewer Question: Of all this mess of the past year, what's the big lesson you derive?
>
> Greenberg: I guess it's a question of over exuberance and getting caught up in thinking the good times are here forever and they never are. The tech bust of nine years ago certainly wasn't a surprise to me. That was so obvious, much more obvious than this. I had no idea that people throughout the country were buying homes they couldn't even come close to afford. It just didn't occur to me that the banks or the mortgage brokers at the grassroots level were doing these things. Maybe I should have known. I don't know why I would, though. So these things, if they're not built on solid ground, they just disintegrate in a hurry...
> (Retrieved May 20, 2010 from
> http://www.pbs.org/wgbh/pages/frontline/meltdown/interviews/greenberg.html)

2.9.2 Case Study: JPMorgan

A History of Mergers

As will be described in this case history, JPMorgan Chase can trace its history back to 1799 and is the result of a multiple mergers. The creation of JPMorgan Chase in 2000 brought together two of the venerable names in banking, not to mention two famous

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historical figures associated with the two firms: J. Pierpont Morgan and David Rockefeller. Today's JPMorgan Chase is the culmination of historical mergers - mostly those on the Chase side that occurred in the 1990s. Chemical Banking Corporation, Manufacturers Hanover, Chase Manhattan, JP Morgan, First Chicago, Bank One and most recently Bear Stearns and Washington Mutual have all come under the JPMorgan Chase name (Pederson, 2009).

Bank of Manhattan Company 1799-1955

The earliest predecessor of Chase Manhattan was the Manhattan Company, formed in 1799 by Aaron Burr with the stated goal of fighting yellow fever by helping to supply New York with clean water. Its real goal was to establish a bank to challenge the powerful Bank of New York and the Bank of the United States. Allowed to pursue other business ventures besides water interests, the Manhattan Company opened the Bank of Manhattan Company in 1799 on Wall Street with Daniel Ludlow as president. Soon Ludlow resigned, the bank sold its water operations to the city of New York and the Manhattan Bank Company focused on its banking operations (Peterson, 2004; Wilson, 1986).

Due to unlimited restrictions in its charter, the bank was able to lend money to a broad audience including trades people, land speculators, manufacturers and governments providing financial support to exploration and expansion of the United States West. The

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bank soon became one of the largest holders of personal depositor accounts and provided a variety of personal banking services (Pederson, 2009).

Chase National Bank 1877-1955

The Chase National Bank, formed in 1877, was named after Salmon P. Chase, Secretary of the Treasury under Abraham Lincoln. Albert Henry Wiggin led the bank to become a global financial power by expanding the bank's list of corporate accounts. Wiggin was instrumental in founding the Mercantile Trust in 1917 as well as the Chase Securities Corporation to distribute and underwrite stocks and bonds. Wiggin established strong ties with business by recruiting the bank's board of directors from the most influential companies in the United States. During Wiggin's tenure, Chase absorbed seven major banks in New York City and he assumed the chairmanship of what was then the largest bank in the world. One of the banks acquired was the Equitable Trust Company, owned by David D. Rockefeller and led by Rockefeller's brother in law, Winthrop Aldrich (Pederson, 2004, Wilson, 1986).

In 1932, scandal struck Chase National Bank. Wiggin had used the funds of the bank along with his own funds to engage in stock speculation and was forced to resign. In addition, it was found through Congressional hearings that Wiggin had used affiliated companies to circumvent the laws restricting stock market transactions. During the stock market crash of 1929, Wiggin made $4 million selling Chase stock short and using the bank funds to do so (Galbraith, 2009).

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Winthrop Aldrich replaced Wiggin and stepped up to lead the bank from the mid 1930's until post World War II. He expanded the bank into Germany and Japan. At the advice of David Rockefeller, Aldrich managed the merger between Chase and the Bank of Manhattan in 1955 as a way to strengthen and expand their branch presence in New York City (Pederson, 2009).

Chase Manhattan, 1955-1981: The David Rockefeller Era

In 1946, David Rockefeller joined the staff of Chase National Bank as an assistant manager in the Foreign Department. His uncle, Winthrop Aldrich, was chairman of the bank at the time. Working his way up through the ranks, David Rockefeller became president of the bank in 1960. He was chairman and chief executive from 1969 to 1980 and chairman until 1981. In 1980, David Rockefeller was the single largest shareholder of the bank (Pederson, 2009).

Under Rockefeller, the bank grew internationally and became a central player in the world's financial system and the leading bank for the United Nations. In 1973, Chase set up the first American branch in the Soviet Union as well as becoming the National Bank of China's first correspondent bank in the U.S. (Pederson, 2009)

In the 1960's, Rockefeller formed the Chase International Advisory Committee (IAC). In 2005, this committee included twenty-eight prominent businessmen from nineteen

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countries. After the merger with JPMorgan, the committee was renamed the International Council and included figures such as Henry Kissinger and Riley P. Bechtel of the Bechtel Group. David Rockefeller retired from Chase in 1981 and was replaced by Willard C. Butcher, who maintained Chase's high international finance profile (Wilson, 1986).

Before becoming the Chairman of the Federal Reserve, Paul Volcker worked for Chase. After his time at the Reserve, he became a member of the Rockefeller Trust Committee, which controls the wealth of the family. Three presidents of the World Bank all had ties with Chase having worked there before taking roles at the international bank. A fourth World Bank president served as a director of the Rockefeller Foundation (Pederson, 2009).

Butcher, Labrecque and Ryan and the Merges with Chemical and JPMorgan

Under Willard C. Butcher, Chase continued to expand through the 1980s. In 1984, the bank purchased Nederlandse Credietbank N.V., a Dutch bank headquartered in Amsterdam. During the same year it purchased the Lincoln First Bank in Rochester, New York. In 1985, the bank bought six Ohio savings and loan institutions. In 1986, Chase acquired Continental Bancor (Pederson, 2009; Wilson, 1986).

Between 1986 and 1988, the Third World debt crisis and strong competition from other banks had a strong negative impact on Chase causing a ten percent workforce reduction. In 1989 and 1990 Chase suffered loses from commercial real estate loans. The bank's

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board asked Butcher to retire a year early to put a new team in to handle the crisis. Thomas G. Labrecque took over as CEO in 1990 with the task of restructuring the bank in an effort to regain its prosperity. Labrecque selected Arthur F. Ryan as president. By 1994, the bank began to turn around had four consecutive years of growth. However, the turn around was not enough to stave off a take over (Pederson, 2009).

In 1995, Chemical Bank announced a merger with Chase Manhattan. Although it was termed a merger of equals, it was really an acquisition of Chase by Chemical. Chemical kept the more prestigious Chase name, but leadership was from Chemical. The new Chase Manhattan emerged as the leading New York bank for both consumers and businesses. Leading the new Chase was Walter V. Shipley who had been in charge at Chemical. The former president of Chase, Thomas G. Labrecque was named president and COO (Pederson, 2009; Wilson 1986).

As deregulation progressed, Chase continued to make acquisitions to keep pace with the rapid consolidation of the financial services industry. In 1999, William B. Harrison succeeded Shipley as CEO of Chase Manhattan becoming chairman in 2000. Chase acquired an investment banking firm in 2000 and continued to enhance its presence in investment banking in Europe and Asia. A month later, Chase announced that it was merging with JPMorgan & Company, Incorporated (Wilson, 1986).

JPMorgan

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The famous "House of Morgan" dates back to 1838 and the founding in London of a merchant banking firm by George Peabody. Junius S. Morgan became Peabody's partner in 1854 and took over the firm in 1864. The firm was renamed J.P. Morgan & Co. Junius' son, John Pierpont (J.P.) Morgan, established a New York office called J.P. Morgan & Co. in 1861. After his father's death, J.P. Morgan consolidated the two businesses. Morgan played a key role in financing many of the businesses that turned the United States into an industrial power including General Electric Company, U.S. Steel, and AT&T. Taking on the role later played by the chairman of the Federal Reserve, Morgan was instrumental in pulling a group of bankers together to ward off the 1907 financial crisis. There were concerns about the power held by Morgan and his bank, especially related to reciprocal directorships leading to the passage of the Federal Reserve Act of 1913 and the Clayton Antitrust Act of 1914 (Pederson, 2009; Chernow, 1990) .

In 1913, J.P. (Jack) Morgan became the firm's senior partner after his father died. The Banking Act of 1933, also known as the Glass-Steagall Act, was passed in response to some of the banking practices of the 1920's which were thought to have caused the Great Depression. The Glass-Steagall Act separated commercial and investment banking. In 1935, J.P. Morgan & Co. pursued commercial banking and spun off Morgan Stanley & Company as an investment banking business (Chernow, 1990).

During the 1960 and 1970s, J.P. Morgan began to venture back into investment banking, working around the regulation outside the U.S. By the 1980s, U.S. regulators began to loosen the regulations. The Federal Reserve gave J.P. Morgan permission to underwrite

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corporate dept securities in 1989. J.P. Morgan moved cautiously back into investment banking compared to its competition and missed out on the high-tech IPO boom of the 1990s. Focusing on its traditional customers, the elite and very wealthy, J.P. Morgan also missed the boom of individual investing by the masses. In 1997, to make up for these misses, J.P. Morgan purchased a 45 percent stake in American Century Investments, a direct distributor of mutual funds (Crisafulli, 2009; Tett, 2009).

JPMorgan Chase

Chase Manhattan acquired J.P. Morgan in late 2000. Douglas A. Warner III the head of J.P. Morgan was named chairman of J.P. Morgan Chase, while Harrison, Chase's head, was named President and CEO. In 2004, Bank One Corp., with Jamie Dimon as CEO, merged with JPMorgan Chase & Co., keeping the name JPMorgan Chase & Co. Dimon stepped in as president of the newly formed bank. He became CEO at the end of 2005 .

In March 2008, at the request of the U.S. Treasury Department and the Federal Reserve and to help prevent Bear Stearns' bankruptcy, JPMorgan Chase acquired The Bear Stearns Companies Inc. Six months later, in September 2008, JPMorgan acquired Washington Mutual as part of a more strategic long term plan that expanded the Chase retail network in California and Florida (Crisafulli, 2009; Pederson, 2009; Wilson, 1986).

Leadership: Jamie Dimon, CEO 2004 -

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Jamie Dimon was born in New York City, the son and grandson of financial brokers. Graduating from Tufts University, he went on to earn an M.B.A. from Harvard Business School. Upon his graduation, Sandy Weill, then chairman of the executive committee of American Express, convinced him to join him as an assistant over offers from Goldman Sachs and Morgan Stanley. Sanford “Sandy” Weill is the former CEO and chairman of Citigroup. Weill engineered a series of mergers that eventually combined Citigroup and Travelers Group, creating the world’s largest financial company at that time.

Weill left American Express in 1985 and Dimon went with him. Together they took over Commercial Credit, a consumer finance company, from Control Data. Weill and Dimon helped engineer seventeen years of mergers that grew Commercial Credit into Citigroup, one of the world’s largest financial services company. In a sequence of events that shocked Wall Street as well as Dimon, Weill fired Dimon in November 1998 (Crisafulli, 2009). In March 2000, after spending eighteen months looking for the right opportunity, Dimon took the role of CEO at Bank One, which was in trouble and looking for strong leadership. In 2004, a healthier Bank One was sold to JPMorgan Chase, then the third largest financial corporation in the U.S. Jamie Dimon became president of JPMorgan Chase.

JPMorgan, which employs more than 200,000 people globally including about 17,000 in Britain, was among the more profitable financial players throughout the credit crunch. When smaller rival Bear Stearns failed in March 2008, JP Morgan bought the business to rescue it from bankruptcy – an act, Dimon said, that was at the behest of Washington: "JP

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Morgan bought Bear Stearns because the US government asked us to" (Clark, 2011). At the World Economic Forum in Davos, 2011, Dimon told an audience of business chiefs and policymakers that JP Morgan subsequently bought another struggling US high street lender, Washington Mutual, to help stabilise the financial system (Clark, 2011).

http://www.guardian.co.uk/business/2011/jan/27/jp-morgan-boss-banker-bashing

While not unscathed from subprime and loan issues, JPMorgan fared comparatively well due to the management philosophy and culture that favors disaster preparedness (see JPMorgan stated Business Principles later in this chapter). The bank actually grew during the credit crisis, due to the Bear Stearns "rescue deal" driven by the U.S. government and the purchase of Washington Mutual from the Federal Deposit Insurance Corporation (Crisafulli, 2009; McDonald, 2009).

From July 2007 through Q2 2008, JPMorgan took $5 billion in losses on high risk CDOs (Collateralized Debt Obligations) and leveraged loans, compared with $33 billion at Citigroup, $26 billion at Merrill Lynch, and $9 billion at Bank of America. Collateralized Debt Obligations are investment-grade securities backed by a pool of bonds, loans and other assets. In the 2009 Letter to Shareholder, Dimon acknowledged their involvement in the crisis:

> "Our two largest mistakes were making too many leveraged loan and lowering our mortgage underwriting standards. While our mortgage underwriting was considerably better than many others, we did underwrite some high loan-to-value mortgages base on stated, not verified income (Dimon, 2010, p. 26).

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In 2006, Jamie Dimon and his team sensed the impending storm and began selling its holdings of subprime debt. The stance was unprecedented. At first JPMorgan lost ground to its competitors by not participating in the subprime arena and falling behind in the lucrative and ultimately disastrous business of selling subprime mortgage securities. Fortune Magazine's senior editor, Shawn Tully (2008), followed Dimon and his team through the financial crisis. In the article *Jamie Dimon's Swat Team*, he recounted a pivotal conversation in 2006 between Dimon and William King, then JPMorgan's chief of securitized products. Dimon, pulling the data points together, realized the risk associated with subprime and told King to start selling their subprime position. This marked the beginning of a strategy shift and allowed JPMorgan to avert the worst of the credit crisis (Tully, 2008).

The Dimon team operated on several core principles. The team constantly dug into the data to look for troubled areas. If something came up, the information was shared quickly throughout the corporation via the strategically organized leadership team. According to Dimon's team, sharing information was as critical as selling products. The flow of information from different corners of the bank, like the signal from servicing that warned Dimon about subprime was a major advantage. "We have a gold mine of knowledge, but you have to manage it well so every one of our businesses benefits from it". If the data shows that a business is riskier than it looks, "get out – no matter how lucrative it appears" (Retrieved February 2011 from http://money.cnn.com/2008/08/29/news/companies/tully_dimon.fortune/).

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The strength of the Dimon leadership team was seen in the willingness to stay away from the highly profitable but highly risky products that their competitors were craving. Even before Dimon, JPMorgan avoided the pools of risky debt. Bank One brought to the merger $8 billion in the risky loans or SIVs. SIVs are pools of mortgages, credit card loans and other debt created by banks but not carried on their books. Dimon was challenged to sell on the grounds that the fees gained were not worth the risk. Documented by multiple authors were references to Dimon's initial resistance to sell. After to listening to the guidance of his team, Dimon aligned (Crisafulli, 2009; McDonald, 2009; Tully 2008; Sorkin, 2009).

MorningStar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia to individuals, financial advisors and institutions. MorningStar reports that eleven of the 13 trustees at JPMorgan Chase are independent advisors, and the board is run by an independent chairman. They monitor fund performance, portfolio risk, inflows and trading practices. Strategically, JPMorgan and its board of directors are intentionally focused on generating returns with limited risk. Retrieved March 2011 from http://www.morningstar.com/artnet-art-1/368504.shtml

JPMorgan Leadership

Multiple authors suggest that it was Dimon's continual focus on what was or could be wrong, owning up to mistakes, and constantly identifying and managing risks that suggest the strength of Dimon's leadership and defined culture at JPMorgan (Crisafulli,

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2009; McDonald, 2009; Sorkin, 2009). A huge operation "can get arrogant and full of hubris and lose focus, like the Roman Empire," says Dimon as reported by Tully (2008). To prevent J.P. Morgan from falling into that trap, he imposed rigorous pay-for-performance metrics and required managers to present exhaustive monthly reviews, then grilled them on the data for hours at a time (Tully, 2008). http://money.cnn.com/magazines/fortune/fortune_archive/2006/04/03/8373068/index.htm

Dimon repeatedly referred to the strength of his team in interviews and public statements (Tully, 2008; Crisafulli, 2009; McDonald, 2009). During the time leading to and throughout the crisis, Dimon depended on the strength and commitment of his people. Dimon's leadership team who made up his operating committee was a mix of longtime loyalists, JPMorgan veterans and outside hires. Dimon didn't look for people who went to the "right" schools or had prestigious resumes. To make it on Dimon's team one needed to be able withstand withering interrogations and had to defend his or her position just as vigorously. (Crisafulli, 2009; Fortune, 2008).

In December 2008, Dimon was presented with the Legend in Leadership Award at the 58th gathering of the Yale CEO Summit of the Yale School of Management Chief Executive Leadership Institute. In characteristic style, Dimon spoke frankly about the financial crisis and the role JPMorgan played in it. He raised the mistakes they made. He spoke of his team, his expectations of them in terms of raising risks, concerns and challenging their decisions. He also spoke of his expectations once a decision was ultimately made. The following quotes are excerpts taken from Dimon's speech (see link

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below). “You must have people around you who have the courage to say no and you need to go where no one else is willing to go”. When asked what he does when he is leading with a hypothesis and it fails, Dimon responded that he never heads in a direction without the foundational information and his team to support it taking the theoretical out of the hypothesis. If the decision doesn’t look right, you have to: “Get the right people in the room; Decide if we have to change; Roll up your sleeves and get to work. Whiners have to go. You want people who will argue with you but in the end take the hill. As for teamwork, you have to set an example and always have people around you who will tell you the truth”. In terms of stewardship and his legacy, Dimon noted that at the best companies, things are always getting better. “The best I can do is to leave the place with high integrity, high powered people who are always learning, always changing. It is those people who will set the company up for the next 100 years.” A video of Dimon speaking of his leadership and culture can be found at

http://mba.yale.edu/news_events/CMS/Articles/6733.shtml

According to multiple accounts, Dimon prepared JPMorgan to withstand the storm that hit Wall Street.

> “In the midst of the most serious and far-reaching financial crisis since the 1930’s – much of it caused by plain old avarice and bad judgment – Dimon and JPMorgan Chase stood apart. Much of the melodramatic coverage of Wall Street post crisis has focused on its flaws – the hubris and the greed. Jamie Dimon’s story contains the opposites – the values of clarity, consistency, integrity, and courage. By sticking to them, Dimon has unquestionably become the dominant banking executive of his era” (McDonald, 2009, p. x).

JPMorgan’s Unique Culture

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Jamie Dimon's statement at the Yale CEO Summit in 2008 regarding culture is noteworthy:

"I don't send memos about culture. We get everyone in the room and solve the problems in the best interest of the company. A culture emerges."

http://mba.yale.edu/news_events/CMS/Articles/6733.shtml

A good way to get a perspective on the JPMorgan culture is to review their stated business principles and culture statement as posted on the corporate website. Those principles most relevant to this discussion on leadership and culture are presented here.

JPMorgan stated Business Principles per the corporate website (author made selections based on relevance to resilience):

- Demand and maintain strong financial discipline, building for good times and bad
    - Financial discipline must be matched with superior-not just average-risk management.

- Create and maintain a fortress balance sheet
    - An unquestionably strong – or fortress – balance sheet is critical to managing business. Having appropriate reserves, strong capital rations and strong credit ratings allows the organization to withstand difficult events while giving the flexibility to deploy capital, increasing dividends, buying back stock, investing in businesses, making acquisitions or doing nothing.
    - To build a fortress balance sheet, "we must thoroughly understand all our assets and liabilities; make sure that someone is accountable for them; use sound, economically appropriate accounting; and have strong controls."

- Eliminate waste and bureaucracy
    - Bureaucracy, silos and politics are the bane of large corporations; they must be combated vigorously and continually. While appropriate rules and procedures are critical to the control and discipline of an organization, unnecessary rules translate into bureaucracy, which destroys initiative, neutralizes passion, stifles creativity, eliminates account ability, and makes it hard for people to do a good job and for managers to manage well.

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- Maintain a strong system of internal governance and controls
  - Good internal governance is essential to effective management. It ties together all our businesses worldwide with a common set of rules, expectations and oversight activities.

http://www.jpmorganchase.com/corporate/About-JPMC/business-principles.htm

Selections from JPMorgan Stated Culture per the corporate website (author made selections based on relevance to resilience)

- Operate with the highest standards of integrity
  - Maintaining the highest standards of integrity involves being honest and doing the right thing for our customers, fellow employees, our shareholders and all our other partners.

- Be open and honest with ourselves, our colleagues, our shareholders and our communities
  - Build a culture based on truth, knowledge, constructive debate, a passion to win, and the courage to face and fix mistakes. We must learn to be brutally hones with ourselves. Our responsibility is to create a company that promotes constructive exchange and we must have the fortitude and courage to take action and do the right thing, however difficult. All must be engaged in challenging the system and solving problems. The key is to never stop learning, to share ideas and always acknowledge mistakes. Our commitment is to create a self sustaining culture that strives for continual improvement, which will ensure the health of this company for decades to come.

http://www.jpmorganchase.com/corporate/About-JPMC/business-principles.htm

Jamie Dimon's Harvard Business School 2009 Commencement Addresses

Leadership Comments (full text in Appendix G).

Dimon offered twelve intertwined attributes of leadership:

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Retrieved March, 2011 from
http://www.jpmorgan.com/cm/cs?pagename=JPM_redesign/JPM_Content_C/Generic_Detail_Page_Template&cid=1159391608440&c=JPM_Content_C

1. Discipline – That means rigorous, detailed meetings and follow up. This must be done consistently. You don't get there and stop. You have to be always striving for improvement.
2. Fortitude: You have to have great fortitude and fierce resolve. Otherwise you could be crippled by politics, bureaucracy and people who don't want change. You have to push back against it. You have to have the ability to act.
3. Standards: Standards are not set by Harvard Business School or the federal governments of the world; they are set by you. You have to set high standards for performance. If you don't, you will fail. Always compare yourself to the best in your industry at a very detailed level and analyze why you're different.
4. Face facts: Look at the facts in a cold-blooded, honest way all the time. At management meetings, emphasize the negatives. What are we not doing well, how come the competition is doing better?
5. Openness: What you want if full sharing of information, then a debate about the right thing to do. The job of a leader is not to make a decision; its to make sure that the best decision is made. To do that, you need to get the right people in the room.
6. Set things up for success: Organize things that will actually work, not things that won't
7. Loyalty, meritocracy and teamwork: Remember that the loyalty is to the organization first and foremost.
8. Morale: Great mistakes are made in the interest of morale. You can't buy loyalty and you can't buy morale. Morale comes from fixing problems, earning respect and winning.
9. Respect: Treat all people properly and treat everyone the same, whether they're clerks of CEOs. Treat everyone equally and with respect. Promote people who are respected. Would you want your child to work for that person?
10. Get compensation right: Performance is hard to judge. Don't just look at the profit and loss statement. Ask did you work hard? Did you hire good people? Did you train? Did you do the right thing for the company? Did you build systems? Judge on performance across the full spectrum.
11. Have real humility: Humility is a deep acknowledgement that we got where : we are because of things like where we were born or who our parents were. It wasn't all our own genius. We could have just as easily been born in a different place or with a disease we couldn't handle.
12. Obligations: We are very lucky. We should all acknowledge that. Most of the 7 billion on the planet would gladly trade places with someone else at random. Being here gives us deep obligations.

Leaders understand that they didn't build this country. We've inherited it from those who were here before. And that should be a humbling thing for all leaders. If you

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> want to be a leader, it can't be about money. And it can't be about you. It's about what you will eventually leave behind. What would you want on your tombstone? For mine, I just hope they say: "We miss him and the world is a better place for him having been here."

http://www.jpmorgan.com/cm/cs?pagename=JPM_redesign/JPM_Content_C/Generic_Detail_Page_Template&cid=1159391608440&c=JPM_Content_C

2.10 Content Analysis: Letters to Shareholders

Letters to Shareholders were selected as the target of analysis in this study because they have largely been used in research studying organization communication strategy and perception management (Amernic & Craig, 2007; Clatworthy & Jones, 2006; Geppart & Lawrence, 2008; Prasad & Mir, 2002). Prasad and Mir (2002) demonstrate through examples of content analysis that the texts of the CEO's communications, when aligned with key events, have the purpose of producing specific perceptions and attitudes. Clatworthy and Jones (2006) through detailed analysis of CEOs letters to shareholders align with this supposition, calling the practice "impression management". The public language of the CEO can offer insight to their leadership style. Their words have the potential to present a strong and charismatic voice or an aura of hubris that could prove to be a liability to an organization (Amernic & Craig, 2007). This dissertation looked at CEO Letters to Shareholders through the lens of leadership and culture from within the context of the 2008 financial crisis, as a way to illustrate differences between Bear Stearns and JPMorgan in terms of organizational resilience or ability to adapt in turbulent times.

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A well written and informative shareholder letter will describe the leader's statement about how the organization's strategic plan is responding to the changing economic, industry or competitive environment and provide their perspective into the quality of management and a statement about their commitment to creating shareholder value (Clatworthy & Jones, 2006). An organization earns credibility and reinforces its reputation by convincing the public that its strategy is sound and the planning capability of its management is solid. Drawing on a detailed literary review of the practice of applying content analysis to letters to shareholders and the execution of contextual analysis, Geppart and Lawrence (2008) take the position that the shareholder's letter can influence the value of a firm's reputation by highlighting the firm's achievements and by announcing a future desired endeavor. The content of the shareholder's letter is an un-audited narrative and disclosures are intentional and directed toward an intended image and perception. The selected language can influence attitude toward the organization (Geppart & Lawrence, 2008).

Smith & Taffler (1995) provide an in depth literature review of research using the letter to shareholder in organizational evaluation. The letter to shareholders resides in a prominent position within the annual report to accomplish a critical level of communication. The annual letter is read by interested parties because it gives a view of an organization's leadership and culture and how the leader plans to nurture that culture. A true determination of organizational health requires a holistic analysis of their financial documents in conjunction with the annual letter to shareholder however, the

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shareholder's letter reveals a great deal about management's capabilities, credibility, in other words, their leadership and culture. (Smith & Taffler, 1995)

The content analysis as presented in this study is limited to a review of the 2003-2008 shareholder letters of Bear Stearns and JPMorgan. This study looked for suggestive elements regarding each organization's leadership and culture and the subsequent implications to sustainability. Year after year consistency is important as one reads each letters with a focus on the personality of the firm. Smith and Taffler (1995) explore the association of the chairman's statement with subsequent corporate failure. The paper explores three specific issues: "the information content of narrative disclosures relative to specific decision environment; the incremental information associated with combining narrative disclosures and accounting information, and the strategies adopted to combine different and potentially conflicting sources of information in a decision task" (Smith & Taffler, 1995, p. 1995).

Their study found that the "chairman's statement alone is highly associated with the event of firm failure, reinforcing the argument that such un-audited narrative disclosures contain important information associated with the future of the company and are not just reporting on past performance" (p1204).

Content Analysis

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A review of literature offers multiple studies using content analysis techniques to assess the focus of management attention in profitable and unprofitable firms. Amernic and Craig (2007) provide a four point framework for analyzing CEO letters to shareholders. 1) Monitor for narcissistic-like signs since a narcissistic CEO may demonstrate over-confidence in decision making; 2) Monitor for metaphors and images to understand what the CEOs is trying to portray and isn't saying outright. The CEO's choice of metaphors may provide insight to his/her personality and may suggest future direction. 3) Monitor for context since CEOs often lead through their words and language; 4) Monitor for cultural keywords. For example, the cultural keyword "integrity" can feel empty and self-serving if it is not used correctly.

Results using the software tool *Concordance*

Using a custom dictionary of 210 words (Appendix H), each of the letters to shareholders was analyzed for word count using the software application *Concordance*. As mentioned earlier in this chapter *Concordance* text analysis software is a tool used to study texts closely or analyze language in depth by providing the context within which the word is used. (http://www.concordancesoftware.co.uk/) The list of 210 words was put into categories and compared using a frequency percentage calculation (Total number of occurrences within the category / Total number of words * 100). The percentages were mapped over the following years: Bear Stearns 2003-2006 and JPMorgan 2003-2007. The year 2007 is significant in that Bear Stearns hit its record high in January 2007 and began its downward spiral thereafter resulting in its purchase by JPMorgan in May, 2008. A 2007

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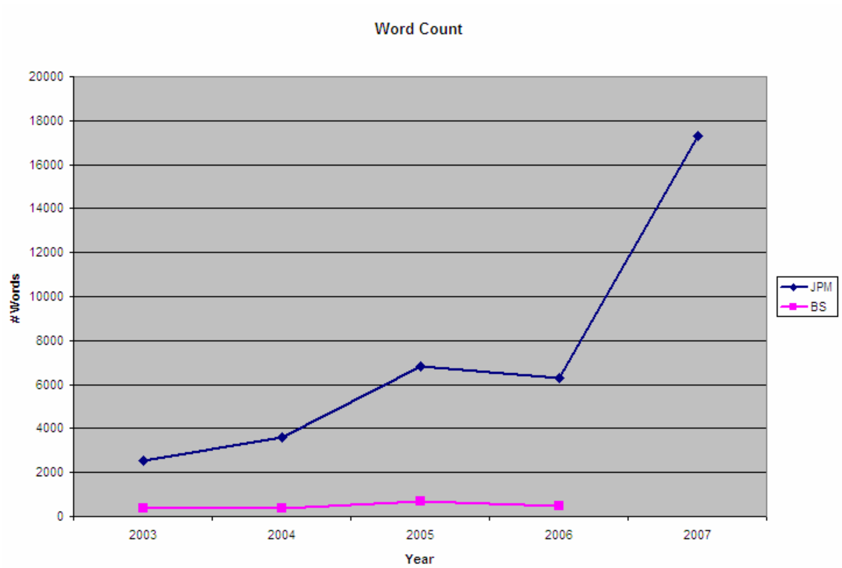
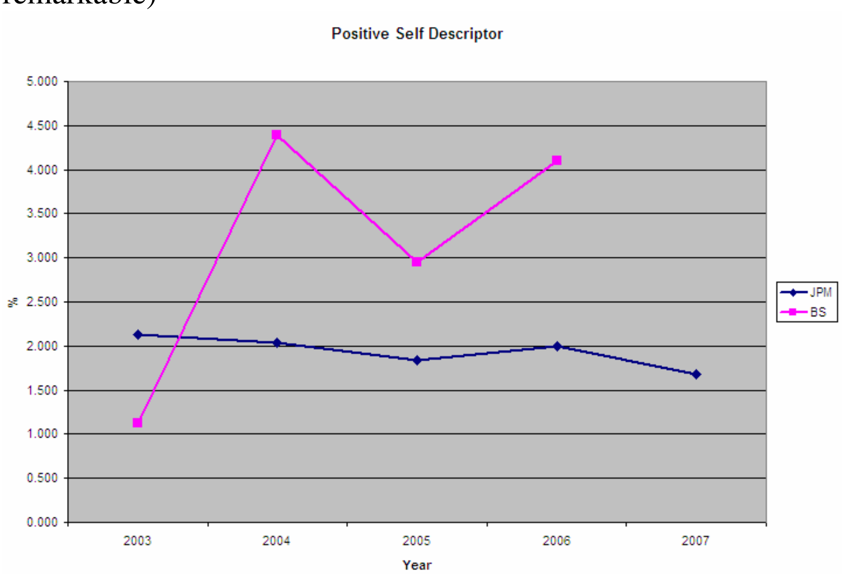
letter to shareholder was never issued for Bear Stearns. The Bear Stearns annual report for 2007 was released as a 10K Form filing.

Category 1: Total Word Count



Category 2: Positive Self Descriptors (e.g. exceptional, extraordinary, stellar, remarkable)



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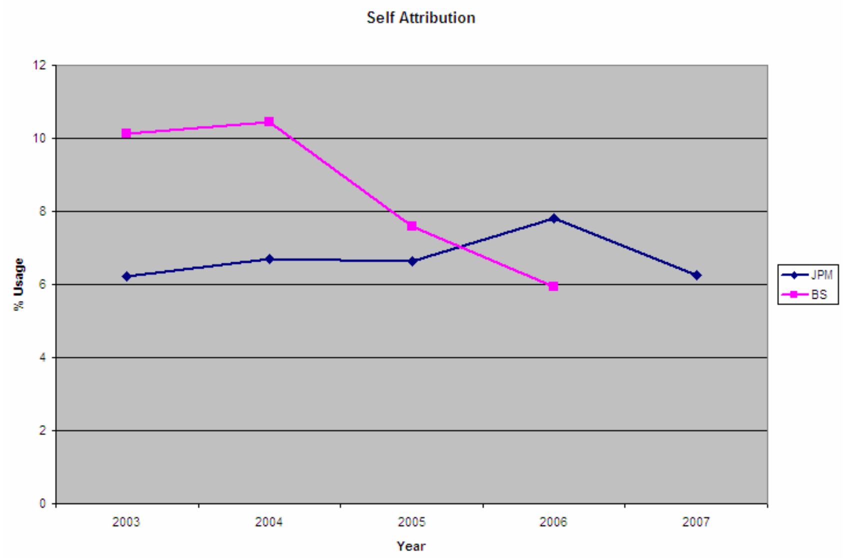
Category 3: Self Attribution (e.g. I, me, my, us, we)



Category 4: Language of Sports or War (e.g. fortress, aggressive, win, performance)

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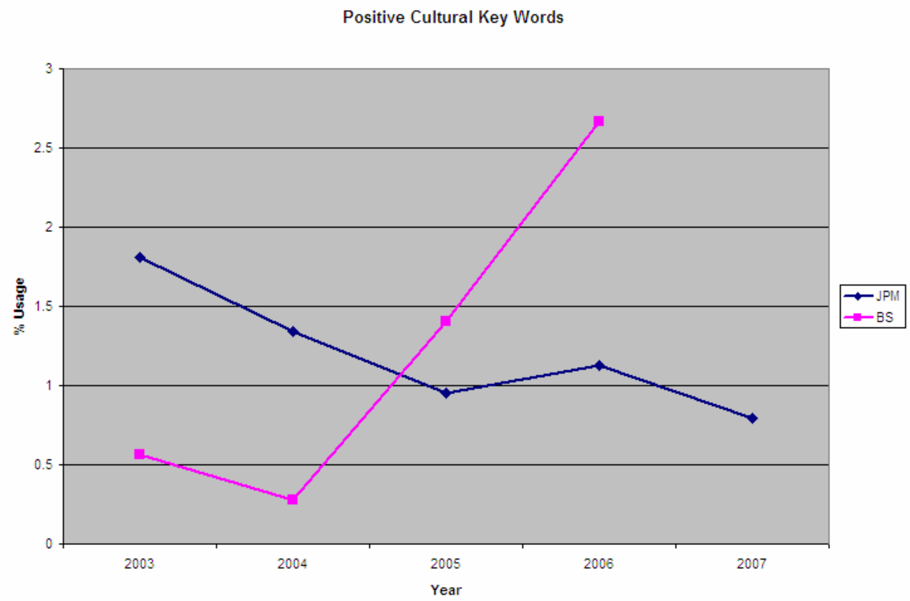
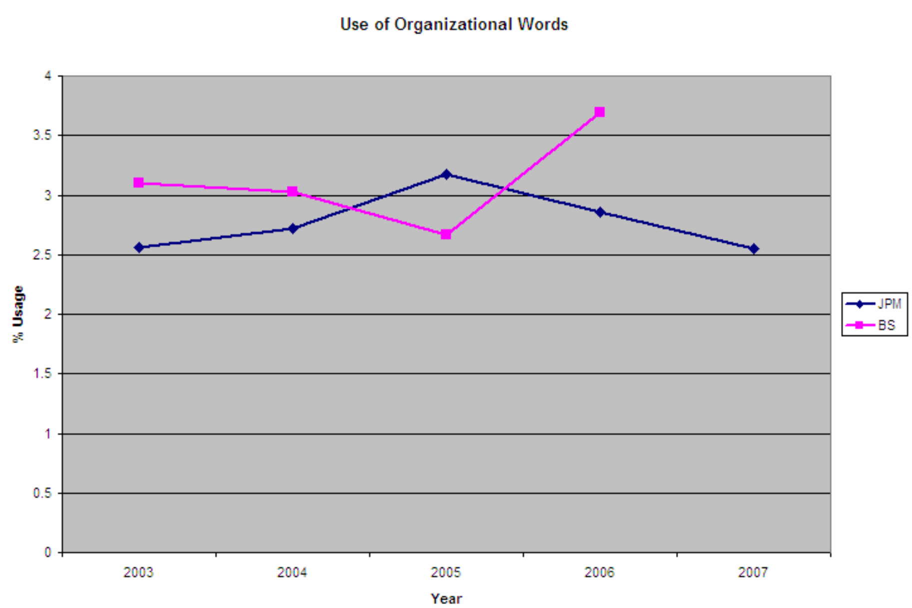
Category 5: Positive Cultural Key Words (e.g. integrity, culture, respect, trust)



Category 6: Organizational Reference (client, customer, shareholder, employee)



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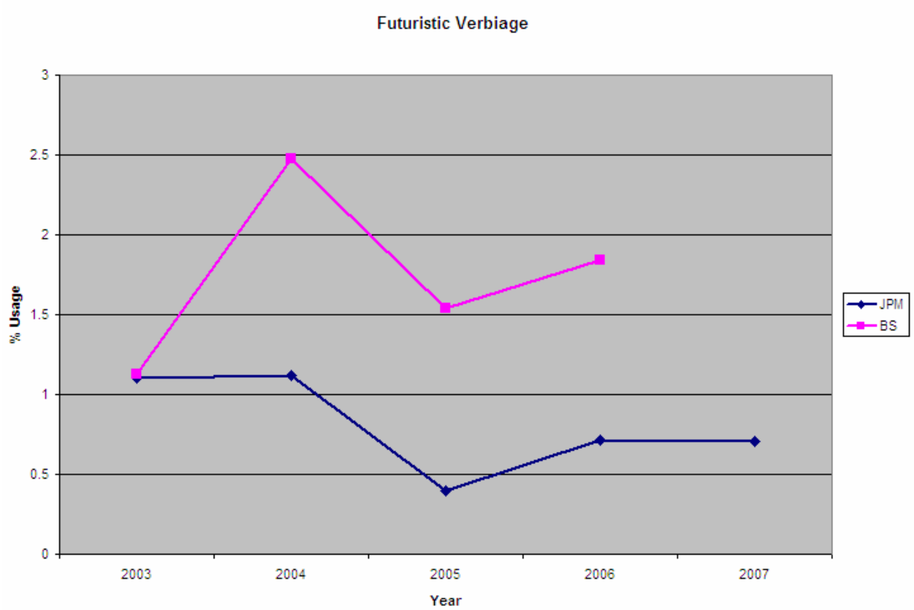
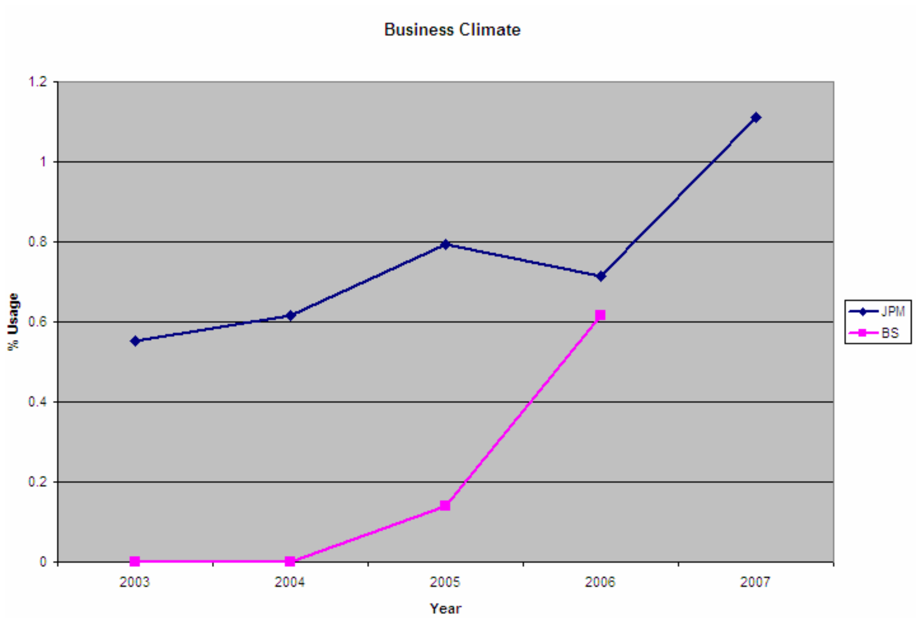
Category 7: Futuristic Verbiage (e.g. growth, long-term, expand)



Category 8: Business Climate (e.g. downgrade, exposure, risk, challenges)



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Results: Wordle - A picture is worth a thousand words

Using the application Wordle, a graphic representation was produced of the letters to shareholders for Bear Stearns and JPMorgan for the years 2004-2008 based on word count percentage of usage. If one assumes that the word count is indicative of importance, these representations could suggest the organization's stance (Appendix I)

The most frequently used words in the Letter to Shareholders

Year	Bear Stearns	JPMorgan
2004	Year / Success / Stockholders	Business / Performance / Management
2005	Value / Bear Stearns / Year	Business / Company / Employees
2006	Bear Stearns / Year / Billion	Business / Credit / Good
2007	-	Business / Market / Financial Assets
2008	-	Billion / Business / Capital
2009	-	Billion / Business / Companies
2010	-	Capital / Banks / Business

The results of this simple pictorial analysis for Bear Stearns highlight the words Success, Value and Bear Stearns. As the shareholder letters are read, Bear Stearns' rise in profitability and financial power is emphasized leading one to suspect a growing cultural

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hubris. This position is confirmed by the behavior of Bear Stearns' leadership at that time as reported in the case study.

JPMorgan's most frequently used word through the years is "business". Also emphasized is "performance", "financial assets" and "credit" suggesting evidence of the turbulent economic situation. In reading the shareholder letters, JPMorgan speaks to its foundation of sound accounting and the benefits it has gained as a result. JPMorgan demonstrated resilience during the 2008 crisis enabling it to endure and thrive and its letters to shareholders are a reflection of this. Further analysis and discussion of these results will be presented in Chapter Five of this paper.

2.11 Summary

This literature review provided a profile of the resilient organization by way of demonstrated commonalities with resilient organisms and resilient individuals. Resilience is frequently defined in terms of human characteristics. However, as seen in the findings of multiple researchers as mentioned in this chapter, it is feasible to extend the concept of resilience to the culture and leadership of organizations.

Based on scholarly literature, the predominant characteristics of resilient organizations include the ability to proactively and continually assess and adjust strategy in response to a rapidly changing business and social environment. Enduring organizations adapt business strategy as necessary; keeping the organization's existence as their highest

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priority. The focus is on the organization, not the individual leaders. Similar to a living organism, resilient organizations are interconnected with the system to which they belong; they exist in relationship with the entities of the broader system. Resilience can be undermined by hubris. Organizations must be vigilant in their guard against the human tendency toward overconfidence and hubris.

The case analysis and content analysis presented in this chapter demonstrated the linkage between resilience and organizational survival and, in contrast, organizational failure resulting from a breakdown in resilience as defined in this study. The case studies of Bear Stearns and JPMorgan showed that the turbulent economic climate seen in the financial crisis of 2007-2008 was a time when resilience was critical to organizational survival.

Looking forward in this dissertation, Chapter Three presents the conceptual model depicting the framework for understanding organic, individual and organizational resilience. Chapter Four describes the evidence based methodology used and Chapter Five contains the discussion and analysis of the literature review, case study and content analysis. Finally, Chapter Six will summarize this dissertation and provide implications for future study.

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Chapter Three: Conceptual Framework

As stated in Chapter One, the following thesis questions drove this study:

Thesis question one: Based on scholarly research, what are the leadership behaviors and resilient cultural characteristics of long lived organizations?

Thesis question two: Based on scholarly research does a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations?

In order to determine resilience or lack of resilience of an organization, the term resilience must be defined. Using the work of multiple theorists presented in the literature review in Chapter Two as a foundation, organizational resilience is defined in terms of specific behaviors and characteristics. Organizational resilience is born of the qualities seen in organic and individual resilience. A prevailing characteristic seen in organic, individual and organizational resilience is that of relationship and connectivity. What impacts one, impacts many. Improving the circumstances of one improves the circumstances of many. The downfall of one can bring the downfall of many.

The resilience of living things can be seen in nature. The struggle for survival, reinvention, renewal and flexibility are seen in organic structures. In nature, the struggle for survival drives adaptation. The growth pattern of a plant is given as an example demonstrating adaptation and flexibility. A sun loving plant always reaches for the light. If placed in the shade, the plant will twist and turn to regain exposure to the light it needs. Farmers and hobby gardeners alike know the resilient pervasiveness of weeds.

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Similar resilient qualities seen in nature are also observed in individual resilient people. However, in addition to the adaptive capacity seen in organic structures, the emotional qualities and psychological characteristics of passion, motivation, learning, intelligence, creativity and reflection come into play. The literature review suggested some of the facets of individual resilience: They include a positive attitude, the ability to focus, and the ability to be flexible, organized and proactive.

As stated in Chapter Two, Reinmoeller and Baardwijk (2005) tie human resilient behavior to the behavior of the organization. The authors posit that in the resilient organization, there is a focus on the development of process capabilities such as risk awareness, risk protection and the reduction of vulnerabilities. In addition, there must be a capacity to self-renew. For self-renewal to be successful the organization must be free from denial, nostalgia and arrogance. Within the resilient organization, there must be openness to the concept of creative destruction as there is in nature with the concepts of Darwinian evolution. As new direction and strategies are developed, old, less effective strategies are objectively let go.

Drawing on the literature review in the previous chapter, the working definition of organizational resilience used within the context of this paper as the lens through which long lived and failed organizations have been observed is as follows:

Organizational resilience is the ability of an organization to demonstrate successful adaptation and reinvention of strategy in accordance with major economic, social and

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environmental shifts keeping in mind the organization's connectedness within the environment. This adaptation is proactive not reactive in nature.

Leadership is the main driver of strategic organizational resilience. It is through open minded (not arrogant) and reflective leadership with a focus on long term sustainability, that a resilient culture is born. The leadership and culture of the organization will determine the behavior and longevity of the firm.

The following conceptual framework depicts the research questions stated above. The framework demonstrates resilient leadership as a derivation of the characteristics of organic and individual resilient behavior. At the organizational level, resilience is strengthened through an ongoing, iterative reflection of it behaviors. This iterative reflection is driven in part by asking the "right questions" and a Socratic understanding of "thyself".

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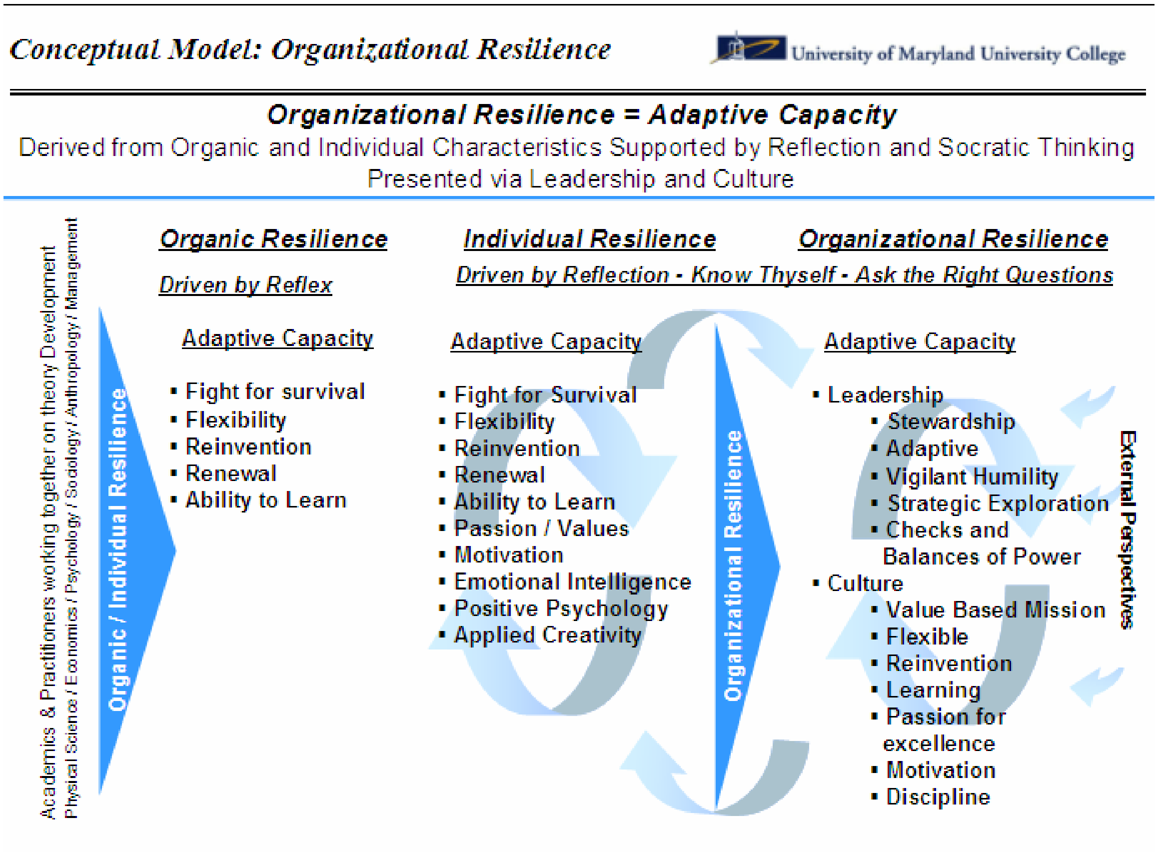

(Stipicevic, 2011)

The framework is offered to depict the concepts of resilience discussed thus far. Organizational resilience is equated to the adaptive capacity of the organization. The characteristics of resilient leaders and culture, as drawn from the literature review, embody the traits seen at the organic level as well as the individual level. They are presented in the framework and portrayed as developing from left to right. At the organic level resilience is driven by reflex such as a plant being drawn to the sun. These traits include the fight for survival, flexibility, reinvention, renewal and the ability to learn.

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Cognitive perspective becomes apparent at the individual and organizational level as resilience is driven more by reflection than by reflex. Differentiating the thinking man from other forms of life is self-consciousness and the ability to make choices. The wisdom of the Greek philosopher, Socrates, instructs the thinking man to "Know thyself" and to get closer to the truth by asking the right questions. According to Xenophon's *Memorabilia of Socrates,* Socrates challenged Euthydemus to seek self-knowledge, to use his mind to understand himself (Bysshe, 1722). Edward Bysshe first translated Xenophon's *Memorabilia of Socrates* in 1712. The work cited is a current reproduction of the original translation. Xenophon is said to have been a pupil of Socrates and is included in this study as a reference to the Socratic thinking required of resilient individuals and organizations. The ability to honestly assess oneself and one's goals from the perspective of motivation is foundational to monitoring for arrogance and hubris, two traits seen through literature research to undermine resilience. This self monitoring is an iterative process with perspectives from external sources. Socrates recommends dialog because in order to see clearly, there is a need for feedback from others. Reflective iteration and input from external sources are depicted the framework.

In addition to the traits seen at the organic level, the literature review suggested that resilient individuals demonstrate passion, emotional intelligence and creativity. Moving to the organizational level, the traits found to be supportive of resilience are categorized by this framework into those supporting resilient leadership and those supporting resilient culture. At the leadership level, literature indicated that the qualities of stewardship, humility and strategic exploration are traits seen in resilient leaders. At the cultural level,

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research demonstrated that a value based mission, the ability to reinvent, constant learning, the right motivation and discipline are seen in enduring resilient organizations.

In summary, drawing on the foundation of the in depth scholarly literature review presented in Chapter Two, this conceptual framework provides answers to the thesis questions which drove this study:

Based on scholarly research, what are the leadership behaviors and resilient cultural characteristics of long lived organizations? As an extrapolation, does a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations?

The literature search, case study presentations and content analysis of the letters to shareholders presented in Chapter Two demonstrated the leadership behaviors and resilient cultural characteristics (or lack thereof) of an enduring organization and a failed organization. The target firms in this study were: JPMorgan as the example of the enduring organization and Bear Stearns as the example of the failed organization. The conceptual model presented in this chapter depicts the framework upon which one can build an understanding of organic, individual and organizational resilience

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Chapter Four: Methodology

4.1 Evidence Based Research Methodology

A scholar / practitioner approach was taken for this study. From the scholar perspective, foundational research focused on resilience including organic, individual and organizational resilience. The selection of authoritative references with regard to resilience included Hamel, Valikangas, Drucker, Collins and Goleman, each in his or her own right a leader in the field of individual or organizational behavior. Their work is built upon decades of scholarly based research with data resulting from quantitative and qualitative studies including surveys, in depth interviews and case study. However, of equal importance is the practitioner's and business leader's perspective. The unfolding of events through the financial crisis of 2007-2008 provided a unique, real time opportunity to witness organizational resilience in a surviving organization (JPMorgan) as well as a breakdown of organizational resilience as demonstrated by a failed organization (Bear Stearns). This paper's intent was to align the scholarly literature with the actual behaviors in practice at the target firms that either supported or undermined resilience during this period of economic stress.

Evidence based research was the primary research method utilized in this study as demonstrated through an extensive, critical review of the literature from a wide range of sources. The evidence-based research approach includes systematic reviews of research studies, case studies, quasi-grounded theory development, and analysis of data already collected by others (www.evidence-basedmanagement.org). In support of the research

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findings, case studies were developed along with content analysis applied to the Letters to Shareholders of the target companies.

4.2 Literature Sources and Author Selection

In order to understand and propose common linkages regarding resiliency from the living organism, to the individual and finally to the organization, information on resilience was drawn from a variety of areas including psychology, sociology, anthropology, management, economics, and the physical sciences. Therefore, the primary database sources from which information was sought included ABI/INFORM Complete, Business Source Complete, Emerald Fulltext and Management Reviews, Gartner, JSTOR, Psychological and Behavioral Sciences Collection, ScienceDirect, and Web of Science. Business and leadership journals which provided insights into resilience included MIT *Sloan Management Review, Harvard Business Review, Journal of Organizational Change* and the *Journal of Personal and Social Psychology*.

In support of the methods section of this study, information was drawn primarily from ABI/INFORM Complete, Business Source Complete, Emerald Fulltext and Management Reviews and Gartner. Journals which provided insights included *Administrative Science Quarterly, Journal of Business Ethics, Journal of Business Finance & Accounting* and *Strategic Management Journal*.

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Case study approach to qualitative analysis provided the opportunity to look closely at the two target organizations, facing similar economic conditions during the same time frame. Case study research method has been used for many years across a variety of disciplines. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 2009).

In support of the case studies, information was drawn from newspaper articles and journals as well as an extensive range of books. Many of the authors are renown in their fields of business analysis, leadership, organizational management and psychology. Other authors are renowned journalists and business leaders. Due to the real time nature of the case studies, a broad range of books, articles, journalistic interviews and first person accounts was included. Some of the authors were employees of the failed firm, Bear Stearns. While this provides important perspectives, balance was assured by using more objective authors to offset and balance the emotional element. The authors are identified with credentials and reasons for inclusion in Appendix K.

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4.3 Approach using content analysis

The language used in communications by the CEO and senior leadership of an organization, specifically in the CEO's letter to shareholders offers a view of leadership's thoughts regarding where they are taking the firm. A CEO's words can be powerful storytelling tools. They offer opinions and communicate the culture and strategic direction of the firm. The most obvious and dramatic difference between the letters of Bear Stearns and JPMorgan used in this study is the word count. Bear Stearns' letters to shareholders, over the time period studied, are very brief. The total word count ranges from a low of 355 words in 2003 to a high of 713 words in 2005. The content of the letters is superficial with very limited discussion of the year past or the year ahead. This low word count affects the overall percentage of individual word usage.

By comparison, JPMorgan's letters to shareholders are very verbose with a low of 2,539 words in 2003 to a high of 17,302 words in 2007. The impact of this high number of words to this study which is based on word count is that a word must be repeated many times over to impact the word use percentage. This information is important as we look at the remaining category comparisons. In this study, the search was not for statistical variance, but rather relative difference.

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4.4 Reliability and limitations of content analysis

Word count content analysis involves mapping words used in documents into distinct categories. Scores representing relative frequencies (in this case % of total word count) is the basis for the analysis. Coder reliability is enhanced with the use of the computer application Concordance which makes word count easier and allows for contextual viewing to ensure that word meaning is understood (Neuendorf, 2002). For example: the word 'values' as in 'core values' is very different from 'values' as 'in market values'. Seeing the context within which the word is used enables a more accurate categorization.

Employing multiple coders can be beneficial, allowing for objective validation of rules. However, the use of multiple coders can also introduce inter-coder variability. In this study, all coding and analysis was done by a single coder, the author, over a five day time span. This was done to improve reliability and eliminate inter-coder variability since coding was done from the same perspective and the dictionary was consistently applied to all documents.

An acknowledged limitation of word count content analysis is that it assumes that the frequency of word occurrences directly reflects the degree of emphasis assigned to words or themes and this may not always be accurate (Weber, 1983). In this study, the comparison of the letters to shareholders was made based on the frequency of word occurrences with an eye toward relative differences between Bear Stearns and JPMorgan. An attempt is made to align verbiage in the letters with their behavior and performance coming up to and during the financial crisis of 2007-2008.

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However careful the researcher has been, content analysis is both an art and a science and depends on the judgment and interpretation of the investigator. In the end, some degree of bias on the part of the researcher is unavoidable.

4.5 Expert Panel Support

The expert panel was composed of four members. Scott Richter is Managing Director, Citigroup Global Markets, Chief Administrative Officer for Global Fixed Income Sales & Research. Timothy W. Martin is Vice President, Bottler Initiatives and IT Strategy at Pepsi Beverages Company. David Postian is Director of Customer Service Systems at Pepsi Beverages Company. Paul J. Kaliades is a small and mid-size business owner and entrepreneur.

Mr. Richter offered to share his broad experience working in the financial sector on Wall Street. Having worked within Citigroup, his insight and guidance helped validate the findings and ensure that the conclusions drawn are viable.

Coming from a large multinational organization, Mr. Martin provided an essential leadership perspective. As a senior leader within the PepsiCo organizations, he understands the importance of a strong and inclusive culture and routinely exemplifies leadership with integrity. With a strong finance background, Mr. Martin's input and

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guidance was sought to provide additional validation of the conclusions drawn in this study.

Along with Mr. Martin, Mr. Postian provided a leadership perspective coming from a large multinational organization. With a background in sales and support, Mr. Postian's experience is anchored to the goal of providing the best possible experience for the customer. He works to ensure that a culture of organizational trust is maintained at the highest level. Integrity and long term value-add are the drivers for the organization that Mr. Postian leads. He provided input to the conclusions drawn relative to culture and leadership.

Mr. Kaliades provided the perspective of a small to mid-sized entrepreneur. His leadership style is one of honesty and transparency. He provided insight and feedback to the conclusions drawn from the data analysis gathered in this paper.

In summary, this chapter provided a description of the evidence based research methodology utilized in this study. It also provided insight to the search methods, author selection and content analysis methodology. The members of the Expert Panel were generous with their time and detailed in their analysis of this work. The insights they provided helped to ground this author's understanding of the complexities of the events which took place during the years under investigation. They also acted as a sounding board for the conclusions drawn in this study, thus proving to be critical contributors to this effort. The expert panel feedback is provided in Appendix J.

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Chapter Five: Discussion and Analysis

5.1 General discussion and analysis of results

This study examined the characteristics of organizational resilience and the effect of resilient leadership and culture on firms during times of economic turbulence. Through an investigation of the concepts of resilience as presented in scholarly research, the author identified the resilient behaviors of long lived, enduring organizations. As an extrapolation, this study demonstrated that a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations.

The literature review provided a profile of the resilient organization by way of demonstrated commonalities with resilient organisms and resilient individuals. Resilience is frequently defined in terms of human characteristics. However, as seen in the findings of multiple researchers as mentioned in Chapter Two, it is feasible to extend the concept of resilience to the culture and leadership of organizations.

Based on scholarly literature, the predominant characteristics of resilient organizations include the ability to proactively and continually assess and adjust strategy in response to a rapidly changing business and social environment. Enduring organizations adapt business strategy as necessary; keeping the organization's existence as their highest priority. The focus is on the organization, not the individual leaders. Similar to a living organism, resilient organizations are interconnected with the system to which they

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belong; they exist in relationship with the entities of the broader system. Resilience can be undermined by hubris. Organizations must be vigilant in their guard against the human tendency toward overconfidence and hubris.

The case studies and content analysis presented in Chapter Two demonstrated the linkage between resilience and organizational survival and, in contrast, organizational failure resulting from a breakdown in resilience as defined in this study. The case studies of Bear Stearns and JPMorgan showed that the turbulent economic climate seen in the financial crisis of 2007-2008 was a time when resilience was critical to organizational survival.

This study was unique in that, in addition to the literature review and case studies, its utilized content analysis techniques to examine the firms' discretionary narrative disclosures as provided by Bear Stearns and JPMorgan chairman's statement to shareholders in the light of the organization’s leadership and culture. Taken further, the intention of this study was to determine if the results of the content analysis align with the observed behaviors of the firms as presented in the literature review and case study section of this paper. The analysis made use of word based content analysis methods and tested the ability of such texts to present firm leadership and culture relative to organizational resilience.

This study was done with the benefit of hindsight. The outcome is known: Bear Stearns failed and JPMorgan demonstrated resilience and endured. This paper looked at a point in

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time comparison of these two firms to demonstrate that JPMorgan's organizational resilience contributed to its survival and that Bear Stearns demonstrated some of the traits presented in literature known to undermine resilience.

The chairman's statement was the focus of the content analysis. It is a key document and, although it is not audited, it is subject to a great deal of scrutiny from outside parties. There are consequently considerable internal and external pressures on the authors of the shareholder letter to be accurate and honest as they discuss the firm's results for the year, achievements, disappointments and future.

The *Concordance* application was used to generate an alphabetic sort and concordance (five words before to five words after) for each of the words occurring in the narratives. Words were lemmatized to allow subsequent counts of those with common roots (e.g. profit, profits, profitable, profitability) and the concordance used to verify coincidence of meaning. Lemmatization is the action of grouping different forms of the same word together for analysis purposes. For example, if the analyst was gathering information about the word 'walk', the following would be grouped along with it: walking, walked, walks.

In addition to *Concordance*, and to include the perspective of content analysis as an art as well as a science, a visual word count presentation is included in this study (see Chapter Two and Appendix F). Using the application *Wordle* (Wordle.com), a graphic representation is created based on the frequency of word usage within texts. The

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shareholders' letters for Bear Stearns (2003-2006) and JPMorgan (2003-2007) have been processed through this application.

5.2 Content Analysis Results: The Organizational Resilience Rating (ORR)

For comparative purposes in this study, the author created a measure called the Organizational Resilience Rating (ORR). Based on results in each category as presented in Chapter Two, each firm was rated on their demonstration of resilient characteristics as presented in literature. The designations are: positive ORR (+ORR), negative ORR (-ORR) or neutral ORR (~ORR). The final ORR scoring presented at the end of this section is a sum of the overall scores.

<u>Category 1</u>: Word Count: Bear Stearns – Limited information shared

Resilience Rating: Bear Stearns: -ORR / JPMorgan: +ORR

The limited use of the letter to shareholder as a vehicle for communication by Bear Stearns could be interpreted as leadership's not willing to be open about sharing their executives' thoughts or the direction to be taken forward. They provided a very limited explanation of business decisions made over the year in question and almost no year over year comparative for continuity. The implications of this limited discussion regarding leadership and culture of Bear Stearns is that a feeling of full disclosure was lacking. Bear Stearns did not take advantage of this communication to provide visibility to the

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strengths of the management team. The reader does not take away an informed perspective of the firm.

The difference in word count between Bear Stearns and JPMorgan argue against the analysis of Clatworthy and Jones (2006) as presented in their study of impression management using letters to shareholders. The findings in the Clatworthy and Jones (2006) study indicated that more profitable companies were not more verbose than less profitable ones. The analysis presented in Chapter Two of this dissertation indicated that more profitable companies are more verbose than unprofitable ones.

Category 2 & 3: Positive Descriptors and Self Attribution

Resilience Rating: Bear Stearns: -ORR / JPMorgan: +ORR

In the categories of Positive Descriptors and Self Attribution, JPMorgan appears to be consistent year to year, while Bear Sterns is much more variable with a high for both categories in 2004.

Several content analysis researchers point to positive descriptors and self attribution as indicators of narcissistic tendencies as referred to in Chapter 2 (Amernic & Craig, 2007, Amernic & Craig, 2010; Geppert & Lawrence, 2008; Smith & Taffler, 2000). Variability seen in Bear Stearns' results could be due to the low overall word count. However, it is interesting to see that Bear Stearns tends towards an overall higher percentage of positive

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descriptors then JPMorgan. This aligns with behavioral observations of the Bear Stearns' culture during the years under the leadership of James Cayne.

Category 4: Language of Sports and Wars – JPMorgan's Fortress

Resilience Rating: Bear Stearns: ~ORR / JPMorgan: +ORR

Comparatively, there does not appear to be much of a difference between Bear Stearns and JPMorgan with reference to frequency of use of Language of War and Sports. However, the most frequent use of a "war" connotation is seen in JPMorgan's use of "fortress balance sheet". This is observed in almost all of the letters beginning in 2004 with the exception of 2006. There is an increased use of this phrase in years 2007 and 2008 (Table 1) as the financial crisis was escalating.

Table 1: JPMorgan use of "Fortress Balance Sheet"

Year	# Occurrences
2003	0
2004	3
2005	1
2006	0
2007	5
2008	5
2009	3
2010	1

The emphasis on a "fortress balance sheet" is made to emphasize a conservative accounting approach. The goal of this verbiage appears to be to an attempt to manage perception around risk and to offer the protection of a fortress. This has been seen with

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the JPMorgan culture and is emphasized in their Business Principles: Execute Superbly – Create and Maintain a Fortress Balance Sheet.

> To build a fortress balance sheet, we must thoroughly understand all our assets and liabilities; make sure that someone is accountable for them; use sound, economically appropriate accounting; and have strong controls.
>
> Retrieved from http://www.jpmorganchase.com/corporate/About-JPMC/document/business_principles.pdf

Category 5: Positive Cultural Keywords

Resilience Rating: Bear Stearns: ~ORR / JPMorgan: ~ORR

Relative to Cultural Key Words such as "trust" and "integrity", Bear Stearns increases usage in the year 2006 while JPMorgan's usage in this time frame is down slightly. Once again, the greatest relative difference appears to be the consistency of the message from JPMorgan and the variability of the message from Bear Stearns. Of interest is Bear Stearns' upwardly increasing percentage of use of positive cultural key words over the course of years 2004-2006. At that time, Bear Stearns' profitability was increasing. Their use of key words such as "culture", "belief" and "success" became more pronounced.

Category 6: Organizational References

Resilience Rating: Bear Stearns: ~ORR / JPMorgan: ~ORR

Of all the categories analyzed, there seems to be the least differences between the two firms in frequency of use of organizational references such as "client", "customer",

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"shareholder" and "employee". The implication here is that both firms strive to impress upon the reader that these stakeholders are top of mind.

Category 7: Futuristic Vision – Bear Stearns' Aura of Hubris

Resilience Rating: Bear Stearns: -ORR / JPMorgan: ~ORR

In terms of Futuristic Vision verbiage, JPM appears to be more toned down than Bear Stearns. This could be interpreted as a more conservative approach to predictions on the part of JPMorgan. Bear Stearns' letters give the impression of success building on success. Beyond the letter to shareholder, a tone of over-confidence was observed in several of James Cayne's quotes, an example being:

> In an interview with New York Times reporter, Landon Thomas, Jr., Cayne demonstrates his highly confident opinion of Bear Stearns. "We are hitting on all 99 cylinders, so you have to ask yourself, what can we do better? And I just can't decide what that might be.
> Retrieved from http://www.nytimes.com/2003/03/28/business/distinct-culture-at-bear-stearns-helps-it-surmount-a-grim-market.html

Category 8: Business Climate and Risk – JPMorgan Speaks to Risks

Resilience Rating: Bear Stearns: ~ORR / JPMorgan: +ORR

The frequency of word usage describing the Business Climate are interesting in that JPMorgan speaks to the challenges of the times, where Bear Stearns does not give much attention to this in their letters. We know from a historical perspective that these were

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times of unprecedented turbulence. JPMorgan's discussion of the challenges suggests a level of transparency and the feeling that they are prepared to confront the issues.

Final ORR Scoring:

The final ORR Scoring is a sum of the overall scores.

Overall ORR Rating: Bear Stearns -4 / JPMorgan +5

The positive ORR rating of JPMorgan indicates a strong alignment with resilience as presented in the literature review. A negative ORR value for Bear Stearns indicates a lack of resilience as presented in the literature.

5.3 Discussion

The goal of this dissertation was to address the stated thesis questions:

Research Question 1: Based on scholarly research, what are the leadership traits and cultural characteristics of long lived organizations?

The leadership traits and cultural characteristics of resilient organizations were determined through scholarly research on resilience in general, resilient leadership, resilient culture, the behaviors of family controlled and non-family controlled firms, stewardship, and overconfidence as a risk to resilient behavior.

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The literature review in Chapter Two provided definitions of resilience within the context of leadership and culture that answered research question 1 by taking the position that resilient behaviors are demonstrated by enduring organizations.

Drawing on the literature review, the working definition of organizational resilience used within the context of this paper is as follows:

Organizational resilience is the ability of an organization to demonstrate successful adaptation and reinvention of strategy in accordance with major economic, social and environmental shifts keeping in mind the organization's connectedness within the environment. This adaptation is proactive not reactive in nature.

Leadership is the main driver of strategic organizational resilience. It is through open minded (not arrogant) and reflective leadership with a focus on long term sustainability, that a resilient culture is born. The leadership and culture of the organization will determine the behavior and longevity of the firm.

Research Question 2: Based on scholarly research does a breakdown of the behaviors associated with resilience contribute to the deterioration seen in failed organizations?

The literature review demonstrated that a breakdown of the behaviors associated with resilience contributed to the deterioration seen in failed organizations. Key themes emphasized managing risks and reinvention and indicated that when these behaviors were

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missing, organizations were prone to decline. The authors presented in Chapter Two suggested that a key challenge which must be addressed in a resilient organization is the cognitive challenge. That is, a company's leadership must strive become free of denial, nostalgia and arrogance.

From the perspective of the literature review, the case studies and the content analysis categories analyzed, the results indicate that JPMorgan demonstrated leadership behaviors and cultural characteristics that support organizational resilience as presented in this dissertation. Bear Stearns provided indications of leadership and cultural characteristics that based on scholarly literature presented in Chapter Two are associated with a lack of organizational resilience.

5.3.1 Alternative Perspectives

The reasons why JPMorgan endured through the events of the financial crisis of 2007-2008 and Bear Stearns failed are not exactly known. The conclusions reached in this dissertation were based on the alignment of findings by journalists, economists and financial experts written during or shortly after the period in question such as Bill Bamber, Dave Kansas, Mark Zandi, George Cooper, Kate Kelly, William D. Cohan, Charles Gasparino and Gillian Tett with the characteristics of individual and organizational resilience found in scholarly literature. Time will provide additional perspectives on the causes of the crisis.

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The perspective that the risk assessment tools were flawed should be considered as a possible contributing factor. It has been cited in accounts of the crisis that the highly complex financial instruments had out paced the tools used to track the risks associated with them. The available tools took a historical perspective to project future risk. The problem that came to light during the 2007-2008 financial crisis, was that the situation was nothing like the past. For example, historically, the default rate on mortgages was thought to be a quantifiable variable and could be confidently built into the calculation for the future risk carried by the lending firms. These tools were not built to handling the unprecedented default rate that occurred. The tools failed to give analyst the necessary insight to the current risk situation.

The perspective of luck, both good and bad, should also be considered. From the bad luck perspective, it is possible that the failure of firms such as Bear Stearns and Lehman Brothers occurred because they were caught in high risk situations at the wrong time. From the good luck perspective, was JPMorgan's survival during this time the result of good policies and decision making or was it just good luck and good timing that allowed them to avert disaster?

Bear Stearns' aggressive culture coupled with the public comments and behavior of its leadership made an obvious argument for hubris as a contributing factor in the firm's failure. Allegation made by Bear Stearns' leadership that they were the victim of short sellers is another perspective as to why the firm failed.

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5.4 Summary

While many takeaways from the crisis involve regulation and restrictions, many of the lessons learned have less to do with instruments and financials and more to do with ethics, transparency, hubris and greed. A comment made at the 2008 Yale CEO Summit was that free market capitalists complained "that government did not restrict us from doing what we knew we should not have been doing".

http://mba.yale.edu/news_events/CMS/Articles/6733.shtml

It is the belief of this author that there will never be enough regulation to prevent unethical behavior. Ethical behavior is driven by leadership and enforced via culture.

The literature review presented in Chapter Two was an effort to understand individual and organizational resilience from a scholarly perspective and to bring to light those traits that allow firms to emerge better and stronger after significant challenges (Conner, 2006; Coutu, 2002; Hamel and Valikangas, 2003; Garmezy, 1978; Reinmoeller & van Baardwijk, 2005; Weick, 1993). As presented in Chapter Two, literature provides us with the warning signs of the risk blindness that can be caused by hubris (Baumeister, et al, 1993; Drucker, 2002; Miller & Miller, 2005). The problem is that hubris causes deafness as well as blindness.

The case studies and content analysis presented in Chapter Two and discussed in this chapter, utilized evidence based research to demonstrate the linkage between resilience

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and organizational survival. At the opposite end of the spectrum, the studies showed that organizational failure could be tied to a breakdown in resilience as defined in this study. The circumstances surrounding the 2007-2008 financial crisis provided an interesting opportunity for a point in time comparative analysis of two financial institutions with very different outcomes. Bear Stearns failed in March of 2008 as a result of the financial crisis. JPMorgan endured, ultimately taking over Bear Stearns for a bargain price. These two firms were the subjects of the case studies presented in this paper. The case studies described two very different organizations from the perspective of organizational resilience as demonstrated through their leadership and culture.

The goal of the content analysis presented in Chapter Two was to examine the chairman's statement to shareholders in the light of resilient or non-resilient leadership and culture as defined in the literature review and presented in the case studies.

A literature review supporting the use of content analysis is presented in the content analysis section of Chapter Two. A CEO’s words can be powerful storytelling tools. They offer opinions and communicate the culture and strategic direction of the firm. Geppert and Lawrence (2008) as well as Amernic and Craig (2007) have done extensive studies on the correlation of the language of leaders as presented the CEO’s letter to shareholder by closely studying narratives and aligning the narratives with leadership behaviors and corporate performance. The public language of CEOs in speeches, letters to shareholders, annual reports, and internet blogs provides discretionary insight to

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company policies, strategy, commitment, attitudes and accountability (Amernic and Craig, 2007).

This study demonstrated that the content analysis findings aligned with the observed behaviors of Bear Stearns as the non-resilient failed organization and JPMorgan as the resilient enduring firm as presented in the case study section of this dissertation during the same timeframe. These behaviors, in turn, aligned with the leadership behaviors and cultural traits of resilient and non-resilient organizations as presented in the literature review.

The impact of the crisis has had continuous global impact. Scholars and practitioners will study the different perspectives as to how and why the crisis occurred for years to come. The hope is that management scholars and practitioners will take away resiliency lessons from this period of economic history to educate and prepare leaders for the future.

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Chapter Six: Summary – Trends and Implications for Management

6.1 A Financial Crisis as well as a Crisis of Ethics

Sponsored by the U.S. Federal Government, *The Financial Crisis Inquiry Commission's Final Report on the Causes of the Financial and Economic Crisis in the United States* was released in January 2011. The commission was created to "examine the causes of the current financial and economic crisis in the United States" (p. xi). One of the major findings was that the financial crisis was avoidable.

> The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial system ignored warnings and failed to question, understand and manage evolving risks within a system essential to the well-being of the American public. Theirs was a big miss, not a stumble. There were warning signs. The tragedy was that they were ignored or discounted (p. xvii).

In terms of organizational leadership and corporate culture, the years of the 2007 - 2008 financial crisis were defining times, not in the face of what was going well, but rather in the midst of financial life and death. The challenge with writing this paper has been determining if there has been pause enough to make statements concerning resilience in organizational culture and leadership.

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The author's interest in the topic of organizational resilience as an expression of leadership and culture began with the *Wall Street Journal* series by Kate Kelly on the final days of Bear Stearns (2008):

> Part One: Missed Opportunities: As the firm's fortunes spiraled downward, executives squabbled over raising capital and cutting its inventory of mortgages.
>
> Part Two: Run on the Bank: Executives believed they were about to turn a corner, but rumors and fear sent clients, trading partners and lenders fleeing.
>
> Part Three: Deal or No Deal?: The Fed pressured Bear Stearns to sell itself, but a misstep in the hastily drawn agreement nearly scuttled the deal.

Retrieved from http://online.wsj.com/article/SB121184521826521301.html.

Each installment of the multipart series read like the unfolding of a thrilling drama. However, this was not a suspense novel…this was real. The questions that kept coming to mind included "How could this be happening?" "How could the borrowers/lenders have behaved so unethically?" Who was in charge and who is responsible?" "Why did some financial firms fail and others make it through the crisis?" "This cannot happen again! What are the lessons to be learned by this and taught to future organizational leadership?"

This author's hope in undertaking this dissertation was to contribute to the body of knowledge that advances the study of management in the following way: management lessons of the financial crisis must be learned and remembered by leadership, supported by corporate culture and taught to the next generation of leaders.

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> If the subprime financial shock has one lesson to teach, it is that, no matter how sophisticated financial institutions, markets, and products become, those animal spirits – a.k.a. hubris – cannot be kept down for long. Future generations will again come to believe that this time things are different and they will overstep (Zandi, 2009, p.279).

Beyond the scholarly literature review of resilient leadership, much of the research supporting this paper was done in real time; as events were unfolding. The drama continues to unfold today and we will continue to learn from the 2007-2008 financial crisis for years to come.

6.2 Emerging Trends in the Financial Industry

6.2.1 Financial Reform and Resulting Regulatory Pressure

The near collapse of the world financial system in the fall of 2008 and the global credit crisis that followed gave rise to calls for changes in the regulatory system. At the time of this writing, government financial regulation was focused on trying to reduce the risk of a repeat crisis as well as increase consumer protection. As a result of this increased regulation, changes to financial management and reporting demanded by the requirement for increased transparency are expected. This, in turn will cause an increase in the overall cost of doing business for the financial firms. Declines in profitability experienced by some firms may be significant leaving them with few options beyond merging with larger institutions.

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Resilient firms will be those who can adapt their business models in anticipation of the new regulation. The resilient firm may determine that the best option is to combine efforts with another firm. There may be an increase in firm collaboration, consolidation and partnering.

A merger as a strategy does not always represent firm failure. JPMorgan as a firm is the result of multiple mergers as described in the case study in Chapter Two. Bear Stearns' failure and ultimate purchase by JPMorgan demonstrated a break down in resilience as presented in this study.

In July 2010, a bill was passed by Congress giving the federal government an extended role in the markets due to a lack of trust of the financial markets. The fear was rooted in the increasingly complex technology driving markets and the role of the government to protect its citizens. The bill allowed regulators to impose restrictions on large financial companies. However, as of the date of this dissertation, many of the rules have not yet been passed nor proposed positions filled. The debate is underway to determine the right balance of reform which will allow money to flow, employment to improve and businesses to prosper but will not put the economy at risk again.

A *Wall Street Journal* editorial by Jamie Dimon dated June 29, 2009 entitled *A Unified Bank Regulator Is a Good Start,* offered comments and recommendations for the future of the financial system. Comments made by Dimon are similar in tone to those reflected in this dissertation relative to resilience and the responsibility of an organization's

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leadership, culture and long term vision. Retrieved June 23, 2011 from http://online.wsj.com/article/SB124605726587563517.html

> No discussion of the future of the financial system can be complete without an acknowledgment of the industry's responsibility to re-earn the trust of the American people. How do we earn trust back? First, company leadership must foster a culture within their institutions that focuses on integrity, strong execution, quality products, long-term value creation, and doing the right thing. Rewards have to track real, sustained, risk-adjusted performance. Golden parachutes, special contracts, and unreasonable perks must disappear. There must be a relentless focus on risk management that starts at the top of the organization and permeates down to the entire firm. This should be business-as-usual, but at too many places, it wasn't.
>
> Above all, no matter what the regulatory framework is, it means recognizing that our accountability is not only to our shareholders, customers and employees, but also to the broader public. The gulf that grew between Wall Street and Main Street has hurt everyone. Americans must see that the work we are doing is not just about earning a profit, but also about creating value that helps consumers, small businesses, government agencies, nonprofits and the whole economy. At their best, that is what financial institutions are all about.
>
> The steady restoration of stability is an important step forward for the financial system and the economy. By instituting needed changes in how financial institutions operate and are regulated, I'm confident that the system will once again play its vital role, efficiently and safely providing the capital and credit upon which our nation's economic growth depends.

The ongoing debate between financial firms and the federal government related to regulation was highlighted on June 7, 2011. Jamie Dimon, CEO of JPMorgan, has been frequently at the center of discussions and debates related to the future of the financial sector. During The International Monetary Conference, Dimon challenged Federal Reserve Chairman, Ben S. Bernanke on whether regulators had overstepped by putting restrictions on the U.S. banking system and therefore, slowing economic growth. He asked if appropriate analysis had been done to determine the long term effects of the new

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rules imposed on in the financial system as a result of the financial crisis. Dimon asked if Bernanke "has a fear like I do that overzealous regulation will be the reason it took so long for our banks, our credit, our businesses and most importantly job creation to start going again. Is this holding us back at this point." Retrieved June 23, 2011 from http://www.bloomberg.com/news/2011-06-07/dimon-asks-bernanke-whether-post-crisis-rules-are-holding-back-u-s-growth.html

The correct balance of regulation of the financial sector has not been determined as of this writing. The residual effects of the actions taken by players involved with the 2007-2008 financial crisis will continue to be felt on a global level for years to come.

6.2.2 Consumer Relations: Risk, Boomers, GenY and the Digital Age

Crucial to the future success of financial firms will be their ability to build or rebuild strong relationships with their customers. The 2007-2008 financial crisis brought increased attention to corporate governance with focus on the complicity of company's boards. The lack of appropriate action taken by boards that might be overlooked during good times, are addressed with laser focus during bad times. At the height of the crisis and immediately after, the general public and consumers have demanded greater regulation through increased petitioning to the federal government. This increased public demand for justice may decrease as time goes on. Historically, during previous periods of economic crisis, the public's scrutiny subsided as economic conditions became less dire, according to futurists Flatters and Willmott (2009).

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The financial crisis has brought individual risk management into the spotlight as a future trend. Individuals will be increasingly responsible for risk related decisions. A firm's willingness to be transparent and forthright will play into this trend. Technology advances will support this trend in that users will have greater access to tools to manage their own finances, potentially reducing reliance on financial advisors.

The aging population of baby boomers depends on the trusting relationships they have with their financial advisors and the firms they represent. Rebuilding or repairing the trust relationship post the financial crisis will be critical for firms to remain partners with this population. Damage to this trust relationship incurred during the 2007-2008 financial crisis provided opportunities for competitors to step in with offerings that meet this demographic's risk appetite and other needs.

Replacing the boomers as the wealth generating demographic are the members of the digital generation, also known as GenY. This generation is much more receptive to new technology, expecting quick or immediate responses to their needs via mobile devices. This generation has been impacted by the financial crisis and will live with the consequences. Increasing complexity of the economic environment is very familiar to them. The resilient organization will need to keep pace with this generation's short attention span, demand for personalization, and immediate response via smart phones, enhanced ATMs and virtual bankers.

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6.2.3 New Sources of Competition

According to the *Intuit 2020 Report: The Future of Financial Services* (2011) by King and Ockels, new technology and an increased shift to online banking will allow newcomers to enter the industry. Nonstandard firms such as Walmart are offering financial products and services. Google, Microsoft, Apple and eBay are among the technical firms suggesting plans to enter the financial services industry. Smaller startups are also seeing opportunity to enter the financial services sector. These smaller scale ventures have the opportunity to offer a more personal customer experience, greater transparency, appropriate risk levels and increased digital offerings. The resilient organization will need to adapt via modified business model and a shift in offerings to successfully thrive in this environment.

6.3 A Profile of the Resilient Survivor

Emerging from the 2007-2008 financial crisis are resilient, thriving firms demonstrating new levels of confidence and speed in the way they make decisions as well as the way they execute and adapt to changes. Research by Beinhocker, Davis and Mendonca of McKinsey & Company (2009) indicated that although all companies in the financial sector were impacted by the financial crisis, the performance gap between strong and weak rivals became greater. This situation presented the stronger player and the emerging player with more opportunities. The advice given to managers by Beinhocker, et al. was that their strategy must address two needs. First, watch for short term opportunities and remain nimble enough to take advantage of them. Second, proactively build a longer term

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evolutionary strategy around their role within the sector, redefining this role as necessary. They also state that those firms that were able to flex to the rapidly shifting environment and innovate during the crisis will ultimately outpace the competition post crisis. Fundamental characteristics of resilient firms as argued in this paper, specifically the ability to flex, adapt and innovate in anticipation of and during times of economic turbulence, are validated by the McKinsey (2009) study.

6.4 Implications for Future Studies of Resilience using Content Analysis

Further Investigation using content analysis and the Organizational Resilience Rating (ORR) as presented in Chapter Two will be the focus of study by this dissertation's author in the short term. The examination of CEO's Letter to Shareholders of other firms impacted by the financial crisis of 2007-2008 will be included in the future study. Failed firms such has Lehman Brothers and Merrill Lynch as well as enduring firms such as Goldman Sachs and Citicorp will be analyzed as a way to further validate and refine the tool. If the results validate the foundational concepts of the tool, other firms' letters will be processed to determine the tools applicability in the work place to measure organizational resilience within the financial sector as well as outside the financial sector.

6.5 Implications for Future Studies of Resilience in Other Industries

The speed with which the business world is changing demands resilience as an imperative for survival. Everyday one can find news related to a potential paradigm shift

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or ground breaking event that could 'change everything'. At this speed, it will take more than just seeing change coming for organizations to thrive. To remain viable, the requirement is not to know what is coming but rather to be astutely aware that *change will happen*. The strategy must be: Expect change and be flexible enough and bold enough to be ahead of it. This position was emphasized by the work of Beer (2007) and Stoltz (2004) as presented in the literature review in Chapter Two. The authors aligned in their conclusion that today, the speed of change is such that re-acting may be too late. Pro-acting is the new resilience requirement (Beer, 2007; Stoltz, 2004).

Beyond the financial world, current news stories demonstrate tests of resilience in organizations, institutions and industries. One such example is the future of the duopoly of the two party system of our government argued in the *Wall Street Journal* article *Death of the Duopoly* by Gillespie and Welch (2011). Retrieved June 11, 2011 from http://online.wsj.com/article/SB10001424052702303848104576385922449922958.html

The authors argue that "nothing in American life today seems as archaic, ubiquitous and immovable as the Republican and Democratic parties" (Gillespie & Welch, 2011). From the perspective of resilience, questions can be raised. Are the parties demonstrating appropriate resilient behaviors which will enable them to adapt as needed for long term viability?

Future research on the topic of the duopoly mentioned could be undertaken using the conceptual model presented in Chapter Three, and the Organizational Resilience Rating

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(ORR) presented in Chapter Five. The right questions asked must lead to the appropriate level of reflection followed by action: Are the right changes being anticipated? How will leadership get ahead of the change? Can leadership recognize arrogance, hubris and obsolescence in themselves and their organizations that, as demonstrated in this study can be fatal to the organization? How do stewardship and a long term vision come into play? Through future research, the ORR metric could be further tested and enhanced to be used as a lens through which organizations might be monitored for signs of a breakdown of resilience.

Another area of future study where resilience or a lack of resilience will define the future of an industry is exemplified by the use of technology in book publishing. Some traditional hardcopy book publishers were reluctant to recognize the impact of digital on their industry. Some embraced the movement and some did not, even as industry newcomers such as Amazon.com appeared. Recently, a new twist has emerged. J.K. Rowling, author of the Harry Potter series of books, has taken the position that she doesn't require a publisher or major online book retailers to distribute the e-book version of her books. Due to technology advances of the past five years, Rowling has access to tools which will enable her to publish a device agnostic version of her tales.

> Ms. Rowling's declaration of retail independence comes at a time of extreme turmoil in book publishing and retailing around the world. In the year ended April 30, U.S. e-book sales jumped 163% to $313 million, according to the Association of American Publishers, but the sale of adult hard-cover books declined 19% to $300 million. The figures reflect the report of 22 companies. Retrieved June 24, 2011 from http://online.wsj.com/article/SB10001424052702304569504576403291417417796.html?KEYWORDS=Rowling+casts+e-book+spell

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Technology has advanced in the area of book publishing to the degree that it has become democratized. Gone are the days when an aspiring author had to have an agent to navigate the publishing world, taking a share of the profits with them. Authors can publish their own books, representing and marketing themselves. Resilient publishing firms will need to be looking toward the future to determine their long term strategy if they are to endure.

Management implications and emerging trends presented in this chapter demonstrated that the scholarly study of resilience and the practitioner's actions based on this partnership are critical in today's business environment of rapid economic and technological change if organizations are to endure. The partnership of scholar and practitioner is not a new concept. In the commencement speech given at Harvard University on June 14, 1956, John F. Kennedy spoke of the importance of tempering the practitioner's actions with the objectivity of the scholar. "We need both the technical judgment and the disinterested viewpoint of the scholar, to prevent us from becoming imprisoned by our own slogans." Retrieved June 26 from http://www.jfklibrary.org/Asset-Viewer/Archives/JFKPOF-135-016.aspx

The efforts of the scholar-practitioner will keep the memory of this crisis vivid enabling resilience to become fundamental in organizations looking for long term viability.

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6.6 Recommendations

The opinion of this author is that the future belongs to the resilient. Firms suffering from insufficient resilience will be at a significant disadvantage in today's fast paced business environment. Resilience is not a destination it is an ongoing reflective process. The following five points are offered as a way to keep resilience in a firm's strategic discussions:

1. Be on guard at all times for indications of the natural human trait of hubris in organizational management and culture. Be keenly aware of complacency resulting from success.
2. Remain open minded to opinions that may conflict with those of leadership. Build a team and a board of diverse perspectives. Seek outside advice and listen to it. Constantly seek to keep the tough questions in the dialogue.
3. Practice self reflection and Socratic thinking – Know Thyself. Understand the drivers behind decisions.
4. Keep long term viability of the firm as the highest priority.
5. Remember lessons learned. Don't be reactive, proactively define the future.

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Appendices

Appendix A: Credit Crisis Timeline

- March 15, 2008: US Federal Reserve: Bear Stearns 'Too Big to Fail,' Makes Billion-Dollar Bailout Loan
- May 30, 2008 - WSJ Headline: "Bear Sterns Cos., a powerhouse on Wall street for nearly nine decades, ceased to exist Thursday in a meeting that lasted about 11 minutes."
- September 14, 2008: Lehman Brothers Investment Bank Files Bankruptcy
- September 15, 2008: US Government Seizes Control of Insurer American International Group (AIG)
- February 23, 2009: Citigroup on Verge of Collapse, Seeks US Government Assistance
- March 9, 2009: Five Major Banks Face Huge Loss Risks
- May 2009: National Unemployment hits 9.2%

Appendix B: Gramm-Leach-Bliley Act of 1999

TITLE I -- FACILITATING AFFILIATION AMONG BANKS, SECURITIES FIRMS, AND INSURANCE COMPANIES

- Repeals the restrictions on banks affiliating with securities firms contained in sections 20 and 32 of the Glass-Steagall Act.
- Creates a new "financial holding company" under section 4 of the Bank Holding Company Act. Such holding company can engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking and insurance company portfolio investment activities. Activities that are "complementary" to financial activities also are authorized. The nonfinancial activities of firms predominantly engaged in financial activities (at least 85% financial) are grandfathered for at least 10 years, with a possibility for a five year extension.

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This act opened the market among insurance, securities and banking companies. The Glass-Steagall Act prohibited a single institution to offer combinations of these services. The strategy behind the change was that the investors will put their money into the investments when times are good and into the bank when times are not so good. The Gramm-Leach-Bliley act would provide the benefit of a single institution servicing a client's investment during both a good and bad economy.

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Appendix C: Bear Stearns Leadership History

March 17, 2008

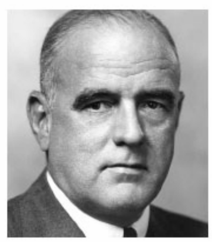
The New York Times

1923 From left, Joseph A. Bear, Robert B. Stearns and Harold C. Mayer found Bear Stearns & Co. with $500,000 in capital.

1929 Despite the stock market crash, the firm lays off none of its employees.

1933 The firm's first branch office opens in Chicago.

1933 Bear Stearns hires Salim L. Lewis, right, a former employee of Salomon Brothers, to oversee its institutional bond trading department. He will eventually become the firm's chairman and chief executive.



1978 Alan C. Greenberg, above, becomes chairman and chief executive after Mr. Lewis dies.

1993 James E. Cayne, above, becomes chief executive. He adds the chairman's title in 2001.

2007 Exposure to subprime mortgage loans leads to billions of dollars in write-downs and the firm's first quarterly loss.

James Cayne resigned as CEO in January 2008. He remained the Chairman of the firm's Board of directors. Alan Schwartz became the CEO and was at the helm when Bear was sold to JP Morgan in March 2008.

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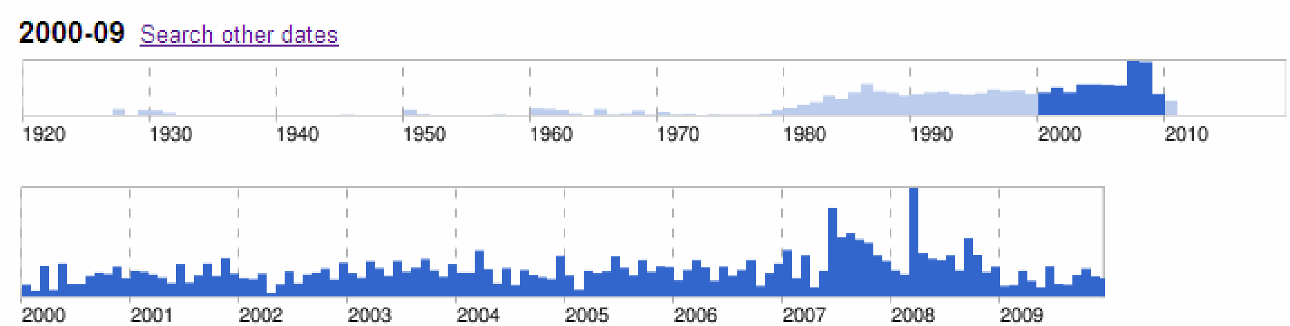
Retrieved on June 9, 2010 from
http://www.nytimes.com/imagepages/2008/03/17/business/20080317_BEAR_STEARNS_GRAPHIC.html

Appendix D: Relative Value Timeline



http://www.google.com/search?hl=en&tbo=p&tbs=tl%3A1&q=Bear+stearns+company+history+charts&aq=f&aqi=&aql=&oq=&gs_rfai=

Appendix E: Leadership TimeLine

1923 – Founded
1929 – The Great Depression
1949 – Cy Lewis managing partner
1960 – 1978 – Cy Lewis CEO
1978 – 1993 – Ace Greenberg Chairman / CEO
1985 – IPO
1993 – 2008 – Jimmy Cayne CEO
2008 – 2008 – Alan Schwartz CEO

Appendix F: Stock Trading Value March 11, 2008 – March 17, 2008

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Bear Stearns Collapse: $159/share to $2 in 365 Days
by Jay Thompson on March 17, 2008 Retrieved on June 11 from
http://www.phoenixrealestateguy.com/bear-stearns-collapse-159share-to-2-in-365-days/

Appendix G: Jamie Dimon Speaks to the Harvard Business School 2009 graduating class about leadership

> "I always hesitate to give advice, because it sounds like I did it all right. I did not. I learned from making mistakes, which I hope you can avoid."

Career Management
You're responsible for your own success and happiness. There are several very important things you've got to focus on.

- Learning is life ling: You have to do it consistently, all the time.
- Build your brand: know how you are looked at by others, are you ethical, trustworthy, hardworking?
- Dealing with failure and mistakes: It's OK to be upset by failure for a while. Eventually you have to get over it and move on. Bear in mind that a lot will happen in the next 25 years that's about more than your skills. There's luck involved. So don't get too exuberant when you do well, and don't get too depressed when you don't.
- To thy own self be true: Fight self deception. We all need people in our lives who will bring us back to Earth. Emotional intelligence is critical. It's something you develop over time. In addition to emotional skills and empathy, there are other traits we have to develop and work at all the time – things like passion, work ethic, character, integrity. You are the sum of all these things. Your IQ alone will not get you through the dark days.
- Take care of yourself: If you don't take care of yourself emotionally and physically, you will fail.

Leadership
It's an honor, a privilege and a very deep responsibility to be a leader, whether of a small group or a larger company. To be a good leader, you have to demonstrate 11 intertwined attributes:

- Discipline: You have to be very disciplined. That means rigorous, detailed meetings and follow up. You have to do it consistently. You don't get there

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and stop. You have to have a strong work ethic. And you have to be always striving for improvement.
- Fortitude: You have to have great fortitude and fierce resolve. Otherwise you could be crippled by politics, bureaucracy and people who don't want change. You have to push back against it. You have to have the ability to act.
- Standards: Standards are not set by Harvard Business School or the federal governments of the world; they are set by you. You have to set high standards for performance. If you don't, you will fail. Always compare yourself to the best in your industry at a very detailed level and analyze why you're different.
- Face facts: Look a the facts in a cold-blooded, honest way all the time. At management meetings, emphasize the negatives. What are we not doing well, how come the competition is doing better?
- Openness: What you want if full sharing of information, then a debate about the right thing to do. The job of a leader is not to make a decision; its to make sure that the best decision is made. To do that, you need to get the right people in the room.
- Set things up for success: Organize things that will actually work, not things that won't
- Loyalty, meritocracy and teamwork: Remember that the loyalty is to the organization first and foremost.
- Morale: Great mistakes are made in the interest of morale. You can't buy loyalty and you can't buy morale. Morale comes from fixing problems, earning respect and winning.
- Respect: Treat all people properly and treat everyone the same, whether they're clerks of CEOs. Treat everyone equally and with respect. Promote people who are respected. Would you want your child to work for that person?
- Get compensation right: Performance is hard to judge. Don't just look at the profit and loss statement. Ask did you work hard? Did you hire good people? Did you train? Did you do the right thing for the company? Did you build systems? Judge on performance across the full spectrum.
- Have real humility: Humility is a deep acknowledgement that we got where : we are because of things like where we were born or who our parents were. It wasn't all our own genius. We could have just as easily been born in a different place or with a disease we couldn't handle.
- Obligations: We are very lucky. We should all acknowledge that. Most of the 7 billion on the plant would gladly trade places with someone else at random. Being here gives us deep obligations.

Leaders understand that they didn't build this country. We've inherited it from those who were here before. And that should be a humbling thing for all leaders. If you want to be a leader, it can't be about money. And it can't be about you. It's about what you will eventually leave behind. What would you want on your tombstone?
For mine, I just hope they say: "We miss him and the world is a better place for him having been here."
http://www.jpmorgan.com/cm/cs?pagename=JPM_redesign/JPM_Content_C/Generic_Detail_Page_Template&cid=1159391608440&c=JPM_Content_C

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Appendix H: Content Analysis Data Dictionary

		JPM 2007		JPM 2006		JPM 2005		JPM 2004		JPM 2003		BS 2006		BS 2005		BS 2004		BS 2003	
Category		# instances	%	# instances	%	# instances	%	# instances	%	# instances	%	# instances	%	# instances	%	# instances	%	# instances	%
	Total # Words	17302		6297		6812		3573		2539		488		713		364		355	
	Total Self Descriptor	290	1.676	126	2.001	125	1.835	73	2.043	54	2.127	20	4.098	21	2.945	16	4.396	4	1.127
Self descriptor	exceptional	3		0		4		0		0		0		0		0		0	
Self descriptor	exceptionally	1		0		0		0		0		0		0		0		0	
Self descriptor	extraordinary, extraordinarily	2		1		0		1		1		0		0		0		0	
Self descriptor	exceeded, exceeding	2		0		0		0		0		0		1		0		0	
Self descriptor	excelled, excel	1		1		1		0		0						1		0	
Self descriptor	flawlessly	1		0		0		1		0		0		0		0		0	
Self descriptor	first-ever, first time	0		0		0		0		1		1		1		0		0	
Self descriptor	excellent, excellence	4		3	0.048	4		0		2		0		1		1		0	
Self descriptor	great	12		0		28		10		5		0		2		2		0	
Self descriptor	near-record	1		0		0		0		0		0		0		0		0	
Self descriptor	outstanding	8		2		6		3		0		1		0		0		0	
Self descriptor	remarkable	1		1		0		0		0		0		0		0		0	
Self descriptor	stellar	2		0		0		0		0		0		0		0		0	
Self descriptor	top, top-ranked	1		0		0		2		1		0		0		0		0	
Self descriptor	better, best	36		25		17		10		7		0		2		0		0	
Self descriptor	growth, grew, growing, grown	35		13		17		23		12		3		1		5		0	
Self descriptor	topped, top-10, top-ranked,top-tier	5		3		0				1		1		1		0		1	
Self descriptor	value	19		4		5		4		5		3		7		3		0	
Self descriptor	dedication	0		4		1		1		0		1		3		0		0	
Self descriptor	exciting, excited, excitement	1		1		2		0		1		1		0		1		0	
Self descriptor	health,healthy	1		3		5		0		0		1		0		0		0	
Self descriptor	tremendous, tremendously	0		0				3		1		0		0		1		2	
Self descriptor	beat	0		0		0		0		0		1		0		0		0	
Self descriptor	strongest	0		0		0				0		0		0		1		0	
Self descriptor	strengthening, strengths	7		6		3		2		2		1		0				0	
Self descriptor	strength	9		3		4		1		1		0		0		1		0	
Self descriptor	stronger	5		2		1		1		0		0		0		0		1	
Self descriptor	strong	32		9		7		3		1		2		0		0		0	
Self descriptor	foremost, forefront	0				1		1		0		1		0		0		0	
Self descriptor	forefront	0		0		1		0		0		1		0		0		0	
Self descriptor	wisdom, wisely	0		0		2				1		0		0		0		0	
Self descriptor	excellent, excellence	4		3		5		0		2		0		0		0		0	
Self descriptor	good	47	0.272	25	0.397	11		3		2		0		0		0		0	
Self descriptor	extreme, extremely	13		6		0		0		0		0		1		0		0	
Self descriptor	tremendous	0						0		1		0		0		0		0	

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Self descriptor	strong, stronger	37		11				4		7		2				0		0	
Self descriptor	steadly	0		0				0		0		0		1		0		0	
	Total Language of War, Sport	36	0.208	17	0.270	30	0.440	24	0.672	10	0.394	2	0.410	3	0.421	2	0.549	0	0.000
Language of war, sport,	aggressive	5		0		0		0		0		0		0		0		0	
Language of war, sport,	aggressively	1		1		1		1		0		0		0		0		0	
Language of war, sport,	ambitious	1		1		0		0		0		0		0		0		0	
Language of war, sport,	excel	1		1		0		0		0		0		0		1		0	
Language of war, sport, extremism	perform, performance, performed	21		14		20		16		9		1		3		1		0	
Language of war, sport,	celebrating	0		0		0		0		0		1		0		0		0	
Language of war, sport,	banner-year	1		0		0		0		0		0		0		0		0	
Language of war, sport,	win, winning	1		0		8		4		1		0		0		0		0	
Language of war, sport,	fortress balance sheet	5		0		1		3		0		0		0		0		0	
	Total Self Attribution	1084	6.265	491	7.797	451	6.621	239	6.689	158	6.223	29	5.943	54	7.574	38	10.440	36	10.141
Self-Attribution	I	38		19		19		0		5		1		5		3		4	
Self-Attribution	my	5		4		1		0		2		0		1		1		0	
Self-Attribution	me	3		0		4		0		0		0		1		1		0	
Self-Attribution	us	53		24		21		13		4		3		0		2		1	
Self-Attribution	we	506		222		209		91		58		8		20		12		9	
Self-Attribution	CEO,chairman	2		1		1		0		0		0		0		0		0	
Self-Attribution	JPM	23		13		7		12		6		0		0		0		0	
Self-Attribution	Chase	18		11		9		21		12		0		0		0		0	
Self-Attribution	Bear Stearns	0		0		0		0		0		7		4		2		5	
Self-Attribution	our	392		169		169		93		61		10		21		17		17	
Self-Attribution	ours	1		1		1		0		0		0		0		0		0	
Self-Attribution	ourselves	8		2		6		1		0		0		0		0		0	
Self-Attribution	I'll	1		1		0		0		0		0		0		0		0	
Self-Attribution	I've	1		0		0		0		0		0		0		0		0	
Self-Attribution	I'd	1		1		0		0		0		0		0		0		0	
Self-Attribution	We'll	4		2		0		0		0		0		0		0		0	
Self-Attribution	we're	11		10		0		0		0		0		2		0		0	
Self-Attribution	we've	12		9		0		0		0		0		0		0		0	
Self-Attribution	leader	2		1		0		3		1		0		0		0		0	
Self-Attribution	leadership	3		1		4		5		9		0		0		0		0	
	Total Cultural Key Word	138	0.798	71	1.128	65	0.954	48	1.343	46	1.812	13	2.664	10	1.403	1	0.275	2	0.563
Cultural keywords	Integrity	0		0		1		2		1		0		0		0		0	
Cultural keywords	blessed	1		0		0		0		0		0		0		0		0	
Cultural keywords	culture	0		0		0		5		6		1		1		1		1	
Cultural keywords	character	1		1		0		0		0		0		0		0		0	
Cultural keywords	reputation	1		0		3		2		0		0		0		0		0	
Cultural keywords	respect, respected, respects	3						0		1		0		1		0		0	
Cultural keywords	sacrifice	2		0		1		0		0		0		0		0		0	
Cultural keywords	core values	0		0		0		0		0		1		0		0		0	
Cultural keywords	believe	36		15		8		3		4		3		3		0		0	
Cultural keywords	confidence, confident	5		4		1		1		2		0		0		0		0	
Cultural keywords	trust, trustworthiness	5						3		5		0		0		0		0	
Cultural keywords	discipline, disciplined, disciplines	9		4		8		6		4		1		0		0		0	
Cultural keywords	steadly	0		0				0		0		0		1		0		0	
Cultural keywords	consistently, consistency	4		3				5		2		1		1		0		0	
Cultural keywords	focus, focused, focuses, focusing,	31		19		13		8		11		2		2		0		0	
Cultural keywords	succeed, succeeded, success, sucessfully, successful	9		7		14		3		4		2		0		0		0	
Cultural keywords	right	16		10		15		4		3		0		0		0		0	

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Cultural keywords	sophisticated	3		2		0		0		1		0		0		0		0	
Cultural keywords	consistently, consistency	4		3				5		2		1		1		0		1	
Cultural keywords	conservative, conservatively	8		3		1		1		0		1		0		0		0	
	Total Organizational	442	2.555	180	2.859	216	3.171	97	2.715	65	2.560	18	3.689	19	2.665	11	3.022	11	3.099
Organizational	business.businesses	127		45		76		41		26		4		3		2		2	
Organizational	CDO/CDO related/CDOs	17		0		0		0		0		0		0		0		0	
Organizational	client, clients, clients'	62		32		10		8		14		1		4		2		0	
Organizational	company, company's, companies	60		27		51		14		3		4		4		1		0	
Organizational	consumer, consumers	11		7		8		5		4		0		0		0		0	
Organizational	customer, customer-focused, customers, customers', customer's,	53		25		26		11		5		1		0		0		0	
Organizational	employee, employees, employees'	15		8		26		8		2		2		3		2		2	
Organizational	governance	2		2		1		0		1		0		0		0		0	
Organizational	second-largest	1		0		0		0		2		0		0		0		0	
Organizational	shareholder, shareholders, shareholders'	14		7		7		1		4		0		0		0		0	
Organizational	stockholder							0		1		1		3		3		3	
Organizational	balance sheet	15		2		2		4		0		1		0		0		0	
Organizational	standards, standardized	31		10		2		1		1		1		1		0		0	
Organizational	you	26		10		7		4		2		2		1		1		3	
Organizational	your	8		5		0		0		0		1		0		0		1	
	Total Futuristic	122	0.705	45	0.715	27	0.396	40	1.120	28	1.103	9	1.844	11	1.543	9	2.473	4	1.127
Future	build	11		3		8		6		2		0		2		2		0	
Future	building	13		4		3		3		2		0		0		1		0	
Future	built	1		1		1		1		0		1		0		0		0	
Future	enduring	0		0				0		1		0		1		0		0	
Future	long-term, longer-term	14		4				2		0		0		1		0		1	
Future	growth, grow, growing, grows	35		18				23		12		3		3		4		1	
Future	expand, expanded							3		0		2				1		2	
Future	continue, continues, continually, continuing, continuous, continuously	48		15		15		2		11		3		4		1		0	
	Total Business Climate	188	1.087	43	0.683	53	0.778	19	0.532	14	0.551	3	0.615	1	0.140	0	0.000	0	0.000
Business Climate	deteriorate,deteriorated, deterioration,	7		0		0		0		0		0		0		0		0	
Business Climate	disastrous, disaster, disasters	1		0		5		0		0		0		0		0		0	
Business																0		0	
Business Climate	downgrade, downgrading, downturn	8		0		0		1		1		0		0		0		0	
Business Climate	exposure, exposures	22		2		6		0		4		0		0		0		0	
Business Climate	loss, losses, lost	37		7		4		1		1		0		0		0		0	
Business	not yet top tier	2		2		0		0		0		0		0		0		0	
Business	risk	44		22		26		12		5		3		1					
Business	risks	20		6		6		0		0		0		0					
Business	risk-managed	1		0		0		0		0		0		0					
Business	risk-taking	0		0		2		0		0		0		0					
Business	risk-return	0		0		1		0		0		0		0					
Business	risky	5		0		0		0		0		0		0					
Business Climate	challenge, challenges, challenging	5		4		3		4		2		0		0		0			
Business	bubble	4		0		0		0		0		0		0		0			
Business	crisis	14		0		0		0		0		0		0		0			
Business	conditions	18		0		0		1		1		0		0		0			

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Category 1: Total Word Count

	2003	2004	2005	2006	2007
JPM	2539	3573	6812	6297	17302
BS	355	364	713	488	

Category 2: Positive Self Descriptors (e.g. exceptional, extraordinary, stellar, remarkable)

	2003	2004	2005	2006	2007
JPM	2.127	2.043	1.835	2.001	1.676
BS	1.127	4.396	2.945	4.098	

Category 3: Self Attribution (e.g. I, me, my, us, we)

	2003	2004	2005	2006	2007
JPM	6.223	6.689	6.62	7.797	6.265
BS	10.141	10.44	7.574	5.943	

Category 4: Language of Sports or War (e.g. fortress, aggressive, win, performance)

	2003	2004	2005	2006	2007
JPM	0.394	0.672	0.44	0.27	0.208
BS	0	0.55	0.42	0.409	

Category 5: Positive Cultural Key Words (e.g. integrity, culture, respect, trust)

	2003	2004	2005	2006	2007
JPM	1.811737	1.343409	0.954198	1.127521	0.797596
BS	0.56338	0.274725	1.402525	2.663934	

Category 6: Organizational Reference (client, customer, shareholder, employee)

	2003	2004	2005	2006	2007
JPM	2.560063	2.714805	3.170875	2.858504	2.554618
BS	3.098592	3.021978	2.664797	3.688525	

Category 7: Futuristic Verbiage (e.g. growth, long-term, expand)

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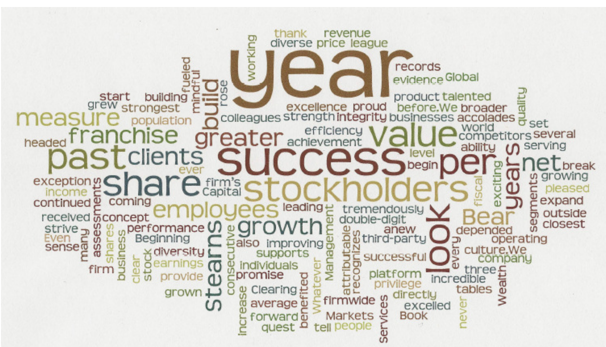
	2003	2004	2005	2006	2007
JPM	1.102796	1.119507	0.396359	0.714626	0.705121
BS	1.126761	2.472527	1.542777	1.844262	

Category 8: Business Climate (e.g. downgrade, exposure, risk, challenges)

	2003	2004	2005	2006	2007
JPM	0.551398	0.615729	0.792719	0.714626	1.109698
BS	0	0	0.140252	0.614754	

Appendix I: Content Analysis – Wordle.com

Bear Stearns 2004



Bear Stearns 2005

Bear Stearns 2006

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JPMorgan 2004

JPMorgan 2005

JPMorgan 2006

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JPMorgan 2007

JPMorgan 2008

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JPMorgan 2009

JPMorgan 2010

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Appendix J: Expert Panel Feedback

Scott Richter
Managing Director, Citigroup Global Markets
Chief Admin Officer
Global Fixed Income Sales & Research

Timothy W. Martin
Vice President, Bottler Initiatives and IT Strategy
Pepsi Beverages Company

David Postian
Director, Customer Service Systems
Pepsi Beverages Company

Paul J. Kaliades
Small to Mid-Size business owner and entrepreneur

	Feedback Question	Martin		Postian		Kaliades (abbridged)		Richter	
		Rating	Comment	Rating	Comment	Rating	Comment	Rating	Comment
1	Contribution to the practice of management	4	Timely topic using variety of analysis techniques and very recent case studies. Topic is relevant to companies in today and future economy.	5	Corporate resilience is critical in maintaining the very existence of a corporation. From the very first days in operation, a company is faced with decisions that will impact it's future being. We are constantly driven to find ways to create, innovate and adapt to changing market conditions. Marketplace competition drives timely, game changing decision making. The very fact that Coke exists, will make Pepsi a better overall company and force it to constantly re-invent itself, keeping it fresh and alive. Katherine shares the research, thoughts and opinions on very relevant fundamentals of good management. Her comments like "Success depends on an organization's ability to reinvent business models and strategies in response to economic and market paradigm shifts" remind me of how we have shifted our business model to stay focused and stay successful. She describes individual and corporate resilience that states, some obvious and some not so obvious, lessons for management. Every person with Executive responsibly should learn from her collection of ideas.	4	Management measures results and performances, explores internal organization, and the impact of the company on society. In the competitive environment confronting Bear Sterns, the quality and performance of management determined success and inevitably survival. Discipline is an integral part of management. Rarely, in economic history has the humanistic element of management been more apparent or more destructive than the financial crisis of 2008. The contribution to the practice of management by this paper provides clear and definitive proof that characteristics of organizational resilience and the effect of resilient leadership and culture on organizations during times of economic turbulence can be the determining factor in the success or failure of the organization.	4	It is extremely important to be able to understand and explain the causes of the recent financial crisis, specifically on an individual company basis in order that companies avoid making the same mistakes. This study advances that effort.
2	Originality of topic or approach, in ways that have the potential to add value to managing organizations?	4	While the topic of Organizational Resilience has been around for awhile, assessing its impact on the tumultuous financial industry over the last few years is very relevant. Utilizing content analysis as a second lens provides an original approach to the study.	3.5	Clearly a lot of analytical studies have been conducted to attempt to determine the reasons behind the Financial system collapse and on the downfall of major US Financial institutions, however, I have not seen a great deal of focus on the historical principles / core value shifts in risk management philosophy. In addition, Katherine analyzed what makes a company strong in the first place and tied the real life case example directly to her research. She shared "best practice" lesions and applied those creatively to the thoughts and behaviors of the people responsible. Learning from mistakes is a key to getting better and avoiding other similar mistakes. Learning from other companies mistakes is all upside and has the potential for huge value.	5	The financial crisis of 2008 from a historical perspective will join the pantheon of legendary events that helped shape the direction of America on economic, social, cultural and political levels. The analysis and regurgitation of the causes which led to this cataclysmic implosion of our financial systems is critically important. Clearly delineating the causal effect of proper versus improper resiliency in leadership and judgment will add much value to management organizations.	4	interesting and original and important things. First, it strives to coalesce all the literature on ' resilience' into one working definition. Second it relates that definition to companies under stress in recent financial crisis. It therefore goes beyond the typical accounts of the crisis by not merely explaining the events but putting. the events and actions in the context of the companies' organizational
3	Quality, including perceived credibility of industry experts such as yourself, of the sources being relied upon?	5	Strong, well known sources; broad set of reference material	4	A great deal of insightful research was conducted and shared in this paper. Katherine studies the people "in the know" and used a broad spectrum of management resiliency philosophers to explain her theory. The industry experts quoted had very logical, believable thoughts that were shared. After going through the re-engineering years myself and surviving several rounds of adapting to market demands, I can say that several of the ideas presented are factual in my opinion.	5	The quality of the sources appears to be of a high level and appropriate to supporting the theory and claims consistent with the nature of the assignment. The references are comprehensive and serve as a means to ascertain validity and provide additional information. The citations and anecdotal references are excellent. The perceived credibility of an "industry expert" such as me is at best subjective.	4	From what I can tell, sources are providing excellent input, guidance.

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4	What do you see as the key assumptions being relied upon by the paper? How do you assess the validity of each?	4	The main assumption is that Bear Stearns was not a resilient organization nor did they have the leadership to grow them in the right direction, leading to their downfall. JP Morgan on the other hand did. The case study of Bear Stearns supports the assumption; the case study of JP Morgan has not been included yet.(at the time of this review)	5	Risk Management / Managing Greed / Long Term Survival/Ability or Willingness to Adapt and basically Loosing Sight of the Fundamentals and why companies are in business in the first place are the key ideals that grossly misunderstood by the leadership at Bear Sterns. Katherine's assumptions that taking on too much risk with a short term, bottom line focus and misaligned incentives" leads to the organizations downfall is true. The failure of resilient leadership and unbridled risk were contributing factors to the fall of Bear Sterns. This point is made very clear in her conclusion.	5	here) My assertion is that the validity of each assumption has been addressed and answered within the body of the paper. Maintaining resilience in leadership and culture is important to organizations with long term visions. A breakdown of resilient behavior is clear as Bear Sterns heads to oblivion. Jim Cayne's predilection to his golf and contract bridge games while Bear Sterns imploded illustrates a deadly hubris and disconnect. Nero fiddled while Rome burned. In Cayne's case, Rome was not the only thing burning as his marijuana smoking antics resonated a leader and regime out of control and out of touch. Led astray by Cayne, Bear Sterns after 85 years of exemplary operational and corporate cultural distinction took the proverbial short cut and easy buck. The result was the death of an iconic financial institution. The risk laden path recklessly taken by Bear Sterns and the rest of the institutional financial systems led to irreparable harm to Main Street as indicated in a number of instances throughout the paper.	5	Key assumption is that a company that embeds the elements of 'resilience' into its culture and adheres to those elements will survive and thrive over the long term. I think this assumption is right on.
5	Rigor (theory, argument)?	3	Writer is still developing the arguments that support the theory, as well as the content analysis to provide further evidence. Initial analysis of the concept of resilient organizations is thorough and viewed from many perspectives.	5	The thoroughness of the research is outstanding. From studying Greek mythology to financial texts, company annual reports, Harvard Business Reviews to reading countless news releases, Katherine captures enough relevant information to share he thoughts and explore her topic in depth.	5	The rigor exhibited in the paper is unyielding with overtones of surgical precision in providing support of the thesis. A straight forward approach of accuracy was dispatched from the beginning through the conclusion of the paper. The measure of intellectual honesty of the assertions to the exhibition of evidence supporting the assertions is outstanding.	3.5	The argument could be strengthened somewhat by a) providing more detail re the decisions / actions that led to BS demise and b) by discussing the difficulty inherent in operating in accordance with the 'resilient' definition.
6	Thoroughness, timeliness, relevance of this paper?	3	Thoroughness of paper is dependent on the additional case study and content analysis. Relevance and timeliness are strong in today economic situation.	5	Almost all aspects of resilience were described in detail with sound conclusions and linkages to today's environment. The timing could not have been more perfect in light of the recent financial regulations being proposed now. This study is also relevant to our current work environment, where PepsiCo purchased it's two largest bottlers in order to create a more efficient, viable and resilient company. Resilience though changing business model could have been explored a bit deeper. Bear Sterns and other financial institutions were allowed to over leverage high risk securities due to Governmental Regulations. Huge profits were made by all, some survived but Bear Sterns did not. Why? I can't wait to read the next chapter in this story.	5	In terms of timeliness and relevance, the paper's underlying message intrinsically measures the metrics and philosophy of the most pressing economic issue confronting our global financial health and viability. In terms of thoroughness, I would give the paper equally high marks although my experience is not in the financial industry. Based on the research, I believe this is an excellent and accurate portrayal and the thesis has been successfully answered.	5	The Paper is extremely relevant as companies strive to make sense of the financial crisis and moreover draw useful lessons from the period.
7	Validity of conclusions/propositions?	4	The assumptions and conclusion seem sound, just difficult to fully assess until the paper is further along.	4	Katherine does a nice build up and presents a strong case for what was happening and we can clearly see the results. Bear Sterns is gone, employees have been laid off, customers lost their money and suppliers lost their businesses... The entire "organic systems" was devastated. She restates the philosopher's guidance and ties the Bear Sterns management's failures in nicely. She also shares her thoughts in the conclusion and makes profound statements like "they stopped looking at employees as people" and they were "blinded by the opportunity to make more money". I would ask if Bear Stern was just caught up in the "climate" and just did not have the resources to weather the storm. If they were able to store some of profits away and stay more liquid, could they	5	The hypothesis that resilience in leadership and culture based on connectedness and the ability to adapt positively to economic and social changes are essential behaviors of successful organizations is argued conclusively. The genesis of Bear Stearns' breakdown was the organization's lack of ability or unwillingness to reinvent their strategy as the economic paradigm shifted and their disconnect to their clients and employees. They were blinded by the opportunity to increase profits. The common thread of greed permeates the end game strategy or lack thereof by Bear Sterns.	5	If your company goals are long term survival, strength and providing a positive societal benefit, I don't think there is any question regarding the importance of embedding the credo of resiliency within the operating system and culture of a company.
8	From the perspective of a senior manager involved in the subject areas of relevance to this paper, how do you assess the quality of the writing in meeting the standards of acceptable professional (business) English?	4	Flow, language, grammar, style – all make the paper easy to read and follow. Blending of quotes and references along with the writers perspectives is well done.	5	Katherine is a solid writer with an excellent grasp of the language of business. She articulated her assumptions, presented the facts and drew a conclusion, clearly and concisely.	4	As an economics major in college and with an advanced degree in Public Administration, I must confess that English (business or otherwise) was neither a primary interest nor strong suit. In that regard, I find the writing very good in the context of the assignment. The paper will meet the goal as a contributing source for the practice of management and will certainly add value to	5	The quality of the writing was excellent. Ideas were communicated clearly and succinctly.

Appendix K: Selected Key Authors

Author: Bill Bamber and Andrew Spencer

Work Cited: Bear Trap – The Fall of Bear Stearns and the Panic of 2008

Credentials: This book was included in the study because it presents an insider's perspective of the Bear Stearns failure. Bill Bamber was a senior managing director at Bear Stearns with responsibility for one of the company's major derivatives groups. Andrew Spencer is vice president of communications of the CMGImage Marketing and assisted with the writing of this book.

Author: Warren G. Bennis

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Work Cited: On Becoming a Leader

Credentials: Warren G. Bennis is university professor and founding chairman of the Leadership Institute at the University of Southern California. He is also chairman of the Center for Public Leadership at Harvard's Kennedy School and Distinguished Research Fellow at the Harvard Business School. He has written more than twenty-five books on leadership, change, and creative collaboration including *Leaders*, which was recently designated by the *Financial Times* as one of the top 50 business books of all time.

Bennis provides an academic's perspective of leadership and resilience which has been proven in business.

Author: Ron Chernow

Work Cited: The House of Morgan – An American Banking Dynasty and the Rise of Modern Finance

Credentials: Ron Chernow is a historian and a renowned biographer. Published in 1990, The House of Morgan won the National Book Award for nonfiction. The book provided insights regarding the history of the J.P. Morgan financial empire.

Author: William D. Cohan

Work Cited: House of Cards – A Tale of Hubris and Wretched Excess on Wall Street.

Credentials: Bill Cohan has 17 years experience as a Wall Street Banker. He was vice president at Lazard Frères, a Director in the Mergers & Acquisitions Group at Merrill

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Lynch and a Managing Director at JPMorgan Chase. William D. Cohan writes regularly for *The New York Times, Vanity Fair, Fortune, ArtNews*, *The Financial Times and The Washington Post*. He is a contributing editor for *Bloomberg TV* and is a contributor to *The Bloomberg View*. This book is included in this study, along with several others written by journalists as part of an effort to derive a balanced perspective of the crisis.

Author: Jim Collins

Works Cited: Built to Last – Successful Habits of Visionary Companies

Good To Great

How the Mighty Fall and Why Some Companies Never Give In

Credentials: Best known for his studies of successful firms, Collins provides a research continuum from the study of successful firms to surviving firms during times of great turbulence.

Author: George Cooper

Work Cited: The Origin of the Financial Crisis Central banks, Credit Bubbles and the Efficient Market Fallacy

Credentials: Dr. George Cooper is a principal of Alignment Investors a division of BlueCrest Capital Management Ltd. His experience includes roles as fund manager at Goldman Sachs and as strategist for Deutsche Bank and JPMorgan. This book is included in this study, along with several others written by analysts and journalists as part of an effort to derive a balanced perspective of the crisis.

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Author: Patricia Crisafulli

Work Cited: The House of Dimon – How JPMorgan's Jamie Dimon Rose to the Top of the Financial World.

Credentials: Crisafulli is a business journalist and editor at the Chicago bureau of Reuters America. She has written business articles which appeared in the New York Times, Chicago Tribune and Boston Globe. She is a contributor to The Journal of Commerce in Chicago and New York. This work was included because it included direct interviews with JPMorgan Chase CEO Jamie Dimon and former Citigroup Chair Sandy Weill. It also contributed to the effort to provide a balanced perspective of the crisis.

Author: Arie de Geus

Work Cited: The Living Company

Credentials: Arie de Geus is an organizational strategist. His experience is based on thirty eight years experience at Royal Dutch/Shell. He is often associated with having originated the concept of the learning organization. The work of de Geus is included in this paper in support of the concepts related to organic organizational resilience.

Author: Peter Drucker

Work Cited: Managing in the Next Society

Credentials: Peter Drucker was educated in Austria and in England, and holds a doctorate in Public and International Law from Frankfurt University in Germany. A prolific writer and solid thinker he has written numerous articles on economics, politics and management. Drucker has authored over 30 books. His insights and views on business

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and economics have influenced the thinking of top management from fortune 500 companies to private enterprises for the past 5 decades. His comments on organizational hubris support the discussion of the risks to resilience.

Author: Alan Greenberg

Works Cited: Memos from the Chairman

The Rise and Fall of Bear Stearns

Credentials: Alan Greenberg held several leadership roles at Bear Stearns before and during the Financial Crisis. His books provide a good first person perspective of the crisis.

Author: Danny Miller and Isabel LeBreton-Miller

Work Cited: Managing for the Long Run: Lesson in Competitive Advantage from Great Family Businesses

Credentials: Danny Miller, PhD. is Research Chair in Family Enterprise and Strategy Department of Strategic Management and Organization at the Alberta School of Business at the University of Alberta. Isabel LeBreton-Miller, PhD. is Senior Research Fellow Centre For Entrepreneurship & Family Enterprise at the Alberta School of Business at the University of Alberta. The authors studied a total of 58 family controlled businesses (FCB), which included companies such as Coors Company, Cargill, Fidelity, IKEA, Hallmark, L.L.Bean, The New York Times, S.C. Johnson and Wal-Mart Stores. They discuss the history of century-long market leaders and provide analysis of once-great

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firms that failed to present models demonstrating priorities which can enhance resilient strategies.

Author: Peter M. Senge

Works Cited: The Dance of Change

The Fifth Discipline

Presence: Exploring Profound Change in People, Organizations, and Society

Credentials: Peter Senge is a Senior Lecturer at the Massachusetts Institute of Technology and founding chair of the Society for Organizational Learning.

Senge's work places human values at the cornerstone of the work place. His work proposes that vision, purpose, reflectiveness, and systems thinking are essential for organizations to realize their potential. The work of Peter Senge ise included in this study in support of the argument that resilient organizations are learning and living with an organic foundation.

Author: Margaret Wheatley

Works Cited: Leadership and the New Science

A Simpler Way

Credentials: Margaret Wheatley received her doctorate from Harvard University's program in Administration, Planning and Social Policy. She holds an M.A. in Communications and Systems Thinking from New York University, and a B.A. in History from the University of Rochester. She has received several awards and honorary

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doctorates. Her ground breaking work proposed a new way of thinking about organizations with the application of the natural sciences to business management. Her work is included in this paper in support of the argument that resilient organizations have some behavioral commonalities with organic entities and individuals.

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