Scandinavian Journal of Management (2014) 30, 372—381

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: http://www.elsevier.com/locate/scaman

The appropriate banker and the need for ontological re-positioning

Sten Jönsson

GRI, School of Business, Economics, and Law, University of Gothenburg, Sweden

KEYWORDS
Financial crisis;
Virtue ethics;
Bank management;
Ontology;
Managerial disconnect

Summary The bankers of this world have failed miserably. Economists have not fared much better. Top managers have failed to know what was going on in their organization (or worse). At lower levels of banks employees have failed to realize that they were gambling with other people's money. Economists have not found it suitable to include data on the behaviour of markets during crisis (Gorton, 2012). Professionally and morally the financial crisis is a disaster. The problems for regulators and scholars are profound. There are compelling reasons to seek new bearings by re-positioning the banker as a responsible person in a socially responsible industry. Such re-positioning is an exercise in ontological reasoning on "the appropriate banker". It uses actor-network-theory, dialogue studies, virtue ethics, and a socio-cultural approach to learn to build a model to guide observation of bankers in action. In her practice the main risk for the appropriate banker is 'disconnect' (not listed among the risks bank management systems should model).

Background and introduction

Gorton (2012) points out that due to the lack of adequate data on financial system crises these phenomena have not been included in macroeconomic models. Davies (2010) mentions 38 explanations to the financial crisis in the literature. A number of national public investigations, like The Financial Crisis Inquiry Report (2011) for the USA, have reported complex patterns of mis-management on several hands. Krugman and Wells (2010) identify four main types of causes discussed by scholars; the low interest rate policy, a global savings glut, financial innovation going berserk, and moral hazard generated by government programmes (no management error in sight?). Madrick (2011) gives a disturbing account of how individual greed and power play have repeatedly interacted with lax oversight to generate crises. Sorkin (2009) claims to base his account of the efforts to save Wall Street on more than 500 interviews with insiders.

Still reading those texts does not give a feeling for how those failed organizations, like Lehman Brothers, functioned as organizations. The finance discourse is based in ideal assumptions about markets. Part of that set of beliefs is the assumption that banks or other financial institutions are rational, well informed actors on the markets (Greenspan's credo). Based on such beliefs it was only natural for Beltratti and Stulz (2012) to seek explanations to why some

E-mail address: sten.jonsson@gri.gu.se.

0956-5221/$ — see front matter © 2014 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.scaman.2014.01.005

banks performed better in 'factors'. One such 'factor' was "Board" constituted by 25 attributes.[1] After performing a large number of regression analyses of combinations of variables they found that fragility of short term funding of banks has explanatory power, but also that banks with more shareholder-friendly governance performed significantly worse than other banks. How are we to navigate this explosion of explanations? Explanations are critical if regulation is to be improved. We should remember that the 7 out of the 10 largest bankruptcies in the world since year 2000 were financial organizations (Euromoney, 2009). Gorton (2012) argues that the history of bank crises in the USA is a story of lack of cash rather than inadequate capital. When trust in a bank's ability to honour commitments is lost equity or its equivalent does not solve the problem.

Truth or facts always appear against the background of an understanding (Lakoff & Johnson, 1980). Such an understanding in scientific work is called ontology. Since it seems well established that the dominating ontology giving the perspective in which phenomena related to bank management so far has been derived from the requirements for making markets calculable, ontological repositioning should be an option to explore. The arguments for a new "understanding" of what bankers do will not be effective when judged by those holding the traditional, neoclassical view, however. Facts are facts in a certain understanding of what the world is like. Persuasion has to come via ontological reasoning from another basis than the neo-classical one. Not an easy task!

Let us assume for a while that the crisis, notwithstanding Minsky's (1986) financial instability hypothesis, is the result of managerial failure. Lehman Brothers failed because nobody would lend money to a company that had overvalued its assets to such an extent that it would be unlikely to meet its obligations. US Treasury Secretary Paulson, former CEO of competitor Goldman Sachs, would not save Lehman, but initiated an expansive rescue operation for AIG; too big to fail, that insurance company was deemed "system critical", which indicates that the financial markets are looked upon as a system, i.e., as an organization, not as a set of self-regulating independent markets inhabited by rational actors.

The managerial perspective on the banker means that the market actor is replaced by a view of an organizational member. Such a member will be concerned about the survival of the bank and its relations to good customers, clients and owners. This is important because banks, more than most organizations, prosper with the success of their customers. The modern economy is a credit-based economy (not so much equity based as it used to be). Innovation financed by credits is at the core of the economy and its growth (McCloskey, 2006). The banker seen in this perspective is in the business of judging multiple arguments at the same time, sorting out the good ones. "The goal of this bank is to survive!" the CEO of the safest bank in the world according to Bloomberg told me in an interview. I was surprised, since shareholder value was the talk of the town at the time. Obviously an organizational member of that bank cannot be satisfied with the bank going bankrupt now and then in some stochastic process. She will have to manage the risks, not only measure them. That task of sorting out the good arguments is not easy in times of institutional change and disruption.

The "solution" to the crisis, this time as well as so often before, is tax-payers' money (the financial sector is still heavily subsidized), and reformed regulation. This time the Basel Committee, and a host of other global regulators, aims for a higher level of capital coverage, risk-weighted of course, to serve as buffer the next time, and a closer watch on liquidity. The next time it might be "sovereign debt" (what a nice word) that provides the trip wire. Or agriculture and land speculation? One might wonder if tighter regulation is the solution if matching supervision is not installed. Arguments for de-regulation were awash after the market economy side had won the struggle with socialist systems and declared the end of history (Fukuyama, 1992). These arguments presented, skilfully, by lobby organizations were persuasive, the obstacles to further development of markets needed to be dismantled. Inside a period of 25 years the institutional framework, within which bankers carry out their tasks, changed rapidly and fundamentally. New cadres flooded the financial sector with new toolboxes of models and products. Expansion in many dimensions followed, control systems could not keep up. While the state deliberates on how to strengthen its oversight, markets are busy developing counterstrategies.

Johnson and Kwak (2010, p. 3) start their book on how Wall Street took over with an account of the meting in late March 2009, between 13 bankers and President Obama where the theme was "we are all in this together". Major banks had become too big to fail (but they became even bigger after the crisis) and the general public and some commentators were upset over the pattern that emerged; the upside (huge profits) goes into very generous bonus schemes, while the downside (huge losses) is taken care of by the taxpayers. Moral and ethical issues were raised. If bank customers and taxpayers have to assume such huge risks for banks to be able to conduct their business as they see fit one could at least require that bankers realizes that the bank is a social institution, mediating in time and space between those that save and those that have good investment projects. It requires trust not only by shareholders, but also by society at large to be allowed such mediation. One might object that societies do not trust, people do, and banks do not behave, their employees and representatives do. Yes! That is the argument for focussing on the banker as a responsible person in this paper. The appropriate banker must deserve trust and in order to deserve it she must acknowledge legitimate influences from society.

Regulation basics

To give structure to these influences the corporatist approach (Streeck & Schmitter, 1985) is chosen as starting point. In a societal context regulatory influences may be expected from three quarters:

- State (Problems solved by bureaucratic control)
- Market (problems solved by competition)
- Community (problems solved by applying knowledge-based professional norms, self-regulation)

[1] Available in the Riskmetrics CGQ database.