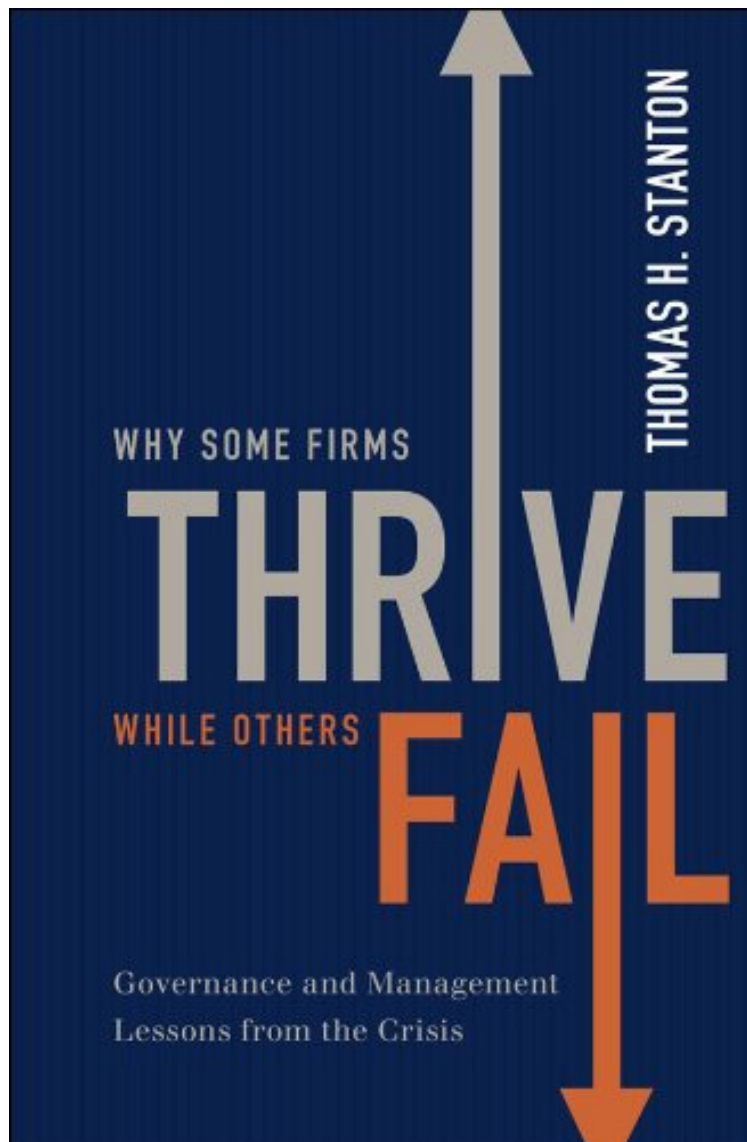


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Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis

Thomas H. Stanton

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0 of 2 people found the following review helpful. Insights from the crashBy Kenneth PosnerI found Tom Stanton's latest book to have many interesting insights, particularly about the firms that survived the crash. For example,

Goldman's liquidity program of borrowing long and investing short and the company's ranks of "controllers" who watched over traders' positions. Or Jamie Dimon's hands-on management style, which created a culture that encouraged managers to talk about risks and problems. The book also provides a useful primer on many aspects of regulation and regulatory supervision. He's a credible source. Because of his role on the commission, Stanton has access to an enormous amount of information about large financial firms and how they fared during the crisis. And he's been a student of financial risk for many years, dating back to his seminal work on the GSEs.

0 of 2 people found the following review helpful. An Important Book By C This is an important book by an insider about how various financial firms (banks, investment houses) reacted to the conditions leading up to the 2008 crash. It is a good complement (providing a micro economic look at the crisis) to the (macroeconomic) book on the same period "Lost Decades" by Jeffrey Friedan and Menzie Chinn, W. W. Norton Company, 2011.

0 of 0 people found the following review helpful. Stanton: Creating Constructive Dialogue is the Key Management Skill By Stephen W. Hiemstra ? When my kids were young, I taught them that there are 3 kinds of people in this world: bull; People who never learn; bull; People who learn from their own mistakes; and bull; People who learn from other people's mistakes. The point is to become someone capable of learning from other people's mistakes. Learning behavior determines personal success; it also determines the success of firms.

Thomas Stanton's book, Why Some Firms Thrive While Others Fail, examines firm learning behavior in the context of financial stress: the Great Recession. He is in a position to know a lot about this subject both because of his long tenure in financial law practice in Washington and because he served as a researcher on the Financial Crisis Inquiry Commission in 2010-2011, a commission established by Congress. As a researcher, he personally interviewed many of the major players in the financial crisis and the federal regulators. Stanton is an attorney by trade with the mind of an economist. He is well-known among Washington insiders, especially in finance, and his book, A State of Risk [1], led Congress to create a new federal agency, the Office of Federal Housing Enterprise Oversight (OFHEO) [2], where I worked during my last 7 years of federal service until I retired at yearend 2010. Tom and I have known each other since the 1980s when I worked on Farmer Mac legislation and supervision [3]. Tom graciously gave me a copy of this book knowing that I would eagerly read it and write about it.

Stanton writes Why Some Firms Thrive While Others Fail in 10 chapters, including: 1. Repairing Our Public and Private Institutions: A National Imperative; 2. Dynamics of the Financial Crisis; 3. Coping with the Crisis; 4. Company Governance and the Financial Crisis; 5. Risk Management and the Financial Crisis; 6. Company Organization, Business Models, and the Crisis; 7. Supervision and Regulation of Financial Firms; 8. Hyman Minsky: Will It Happen Again? 9. Governance and Management: Lessons Learned; and 10. Governance and Management: Beyond the Financial Crisis (v). These chapters are preceded by a preface and acknowledgments and followed by a Table of Acronyms, Notes, References, and an Index. An important theme in the Great Recession, as reflected in the book, is the need to link and understand intimately highly technical knowledge of financial markets, financial instruments, firm operations, and modeling to firm risk management and business objectives. The image of a Fortune-500 CEO who wanders the halls having substantive conversations with staff throughout the organization captures this dynamic. Stanton highlights this hands-on, engaging management style in his concept of constructive dialogue.

Stanton writes: One of the critical distinctive factors between successful and unsuccessful firms in the crisis was their application of what this book calls "constructive dialogue." Successful firms managed to create productive and constructive tension between (1) those who wanted to do deals, or offer certain financial products and services, and (2) those in the firm who were responsible for limited risk exposure (10). The importance of quality dialog within the firm or government agency arises from the simple observation that no single individual, no matter how bright or experienced, could understand the totality of the highly technical financial environment that now exists. Having an open-minded executive is accordingly insufficient; the firm culture must embrace active learning and open communication.

Stanton's has an interesting blend of wide scope and technical depth within its subject-matter: governance and management. Four firms who succeeded received the majority of his attention: JPMorgan, Goldman Sachs, Wells Fargo, and TD Bank. Stanton makes the case that these firms survived because of operational competence and intelligent discipline (43). In other words they maintained disciplined risk taking, combined good judgment with good information, and had good communication (54-55). Failing firms (Fannie Mae, Freddie Mac, Bear, Lehman, Merrill, Countrywide, WaMu, IndyMac, etc.) failed for different reasons, including focus on short-term growth, ineffective data systems, weak capacity to answer simple questions, and lack of effective communication (57-66).

Stanton's Why Some Firms Thrive While Others Fail should be of keen interest to financial policy makers and bank supervisors who deal with large institutions. Because the federal agencies have mostly shied away from writing studies of what went wrong in the Great Recession (unlike earlier crises [4]), this book functions as a quasi-official study of the Great Recession. For the reader interested in enterprise risk management, his contribution consists of a series of case studies of important firms that both succeeded and failed. For students of organizational behavior this book should be required reading.

1. A State Of Risk: Will Government Sponsored Enterprises Be The Next Financial Crisis? (New York: HarperCollins Publishers, 1991)

2. OFHEO was created by Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and folded into the Federal Housing Finance Agency (FHFA) in 2008 by the Housing and Economic Recovery Act.

3. I studied and wrote about the Federal Agricultural Mortgage

Corporation (Farmer Mac) as a researcher in the Economic Research Service, USDA and later took a role in Farmer Mac supervision as a financial economist at the Farm Credit Administration (FCA) responsible for Farmer Mac regulation and supervision.⁴ See, for example, an exhaustive study of the banking crisis of the 1980s by the Federal Deposit Insurance Corporation (FDIC) on their website.

Why did some firms weather the financial crisis and others not? This book investigates inner workings of over a dozen major financial and nonfinancial companies, reveals what went wrong and proposes a remedy. Regulators too must learn from past mistakes and require "constructive dialogue" for companies they supervise.

"Tom Stanton has given us a cogent and powerful analysis of the key forces that catapulted America to financial disaster. Through this book and his impressive work for the Financial Crisis Inquiry Commission, he has provided us a roadmap to help avert future catastrophe. It is a major contribution to our understanding of the financial and economic crisis that continues to grip our nation."--Phil Angelides, Chairman of the Financial Crisis Inquiry Commission, former State Treasurer of California

"Tom Stanton's book should be high-priority reading for senior managers and policymakers. Careful consideration of the well-reasoned arguments in this book will necessarily be part of any serious effort to reform our financial regulatory system, strengthen firm governance and risk management, and promote greater overall financial stability--all critical prerequisites to assuring a strong and resilient economy, and rising standards of living, over time."--Rich Spillenkothen, former director of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System

"Governance failures were central to the financial crisis, and they continue to be a primary focus of post-crisis financial regulation. *Why Some Firms Thrive While Others Fail* is a serious appraisal of the lessons behind those failures, and a guidebook for managers who hope to make effective risk management a cornerstone of their companies."--Eugene A. Ludwig, former Comptroller of the Currency, Founder and CEO of Promontory Financial Group

"Tom Stanton makes a powerful case for constructive dialogue inside companies and between companies and regulators to reduce unnecessary business risk. Such dialogue between those responsible for performance and those responsible for integrity materially improves the chances the problems are defined properly, key factors are properly weighted and ultimate decisions are sound."--Ben W. Heineman, Jr., Senior Fellow at Harvard School of Law and School of Government, former Senior Vice President-General Counsel, General Electric

"Tom Stanton told us in 1991 that the fatal design of government-sponsored enterprises would escalate risk in housing finance. He was proved right--too late. Now he explains the management and organizational characteristics which provide for survival, while the less prepared are collapsing, in the inevitable hard times of financial cycles. We need to concentrate on remembering these lessons when the next boom gets rolling."--Alex J. Pollock, Resident Fellow, American Enterprise Institute, former President and CEO, Federal Home Loan Bank of Chicago

"Drawing from many interviews conducted by the Financial Crisis Inquiry Commission, Stanton's book considers how various important firms dealt successfully with such uncertainty (or failed to do so with disastrous results) and the severe organizational stresses and dynamics involved as financial events that were considered impossible by many or most people nevertheless became reality. The personal accounts of discussions, arguments, and decisions about riskiness, often enough career-ending ones, instructively display the uncertainty always involved. What is truly needed, and what Stanton's book so interestingly explores, is how organizations can facilitate the Minskian dialectic of enterprise and prudence, and how they can improve their chances of making sound judgments in the face of ineluctable uncertainty."--The American

About the Author
Thomas H. Stanton is a fellow of the Center for the Study of American Government at the Johns Hopkins University. He is the author of *A State of Risk: Will Government Sponsored Enterprises be the Next Financial Crisis?* and *Making Government Manageable: Executive Organization and Management in the Twenty-First Century*.