UNCLOAKING THE DARK SIDE OF ORGANIZATIONAL BEHAVIOR:
Exploring Organizational Dysfunction in Financial Institutions in Ireland, the UK and the US

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Submitted in fulfillment of the requirement for the degree of Doctor of Philosophy, University of Limerick

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The financial crisis has highlighted the impact of human failure on a global scale. The financial crisis has illuminated the individual, organizational, institutional and societal impact of dysfunctional or dark side behavior. This thesis explores the antecedent conditions that have the potential to contribute to the emergence, legitimation and institutionalization of dark side behaviors within the organizational setting – financial institutions. In doing so, the thesis draws on numerous public inquiries from the US and UK as well as a number of official government reports on the causes of the various banking crises that formed the basis of the global financial crisis. This thesis explores the organizational and institutional factors that can contribute to the development of dark side behaviors on a scale not considered previously. This thesis identifies the potential for a new organizational governance role for HR leaders that may minimize the potential for the institutionalization of organization-wide dark side behaviors. This thesis explores the theoretical foundations of HRD and challenges the performativity orientation as a facilitator of dark side organizational behavior. In doing so, it provides empirical evidence that the performance objective of many HRD practitioners may indeed facilitate the legitimation of dark side behaviors. This thesis also utilized a novel methodological approach to exploring HR interventions that may facilitate future inquiry of sensitive organizational topics. This approach provides a replicable framework for HR researchers to uncloak organizational behavior thought to be beyond the analytic gaze of the research community. Finally, this thesis explored how HR interventions can have a double-edge sword effect on human emotion potentially facilitating the emergence of an organization-wide disposition focused on dark side behaviors as a result of a positive emotional association with the organization.
DECLARATION

The work in this thesis has not been submitted to any other university or higher education institution, or for any other academic award. Any contribution made to the research by others, with whom I have worked with, is explicitly acknowledged in the thesis. Citations of secondary works have been fully referenced.

____________________________
Clíodhna A. MacKenzie

July 2014
ACKNOWLEDGMENTS

A Ph.D. can either be a horrendous experience or something that challenges you every day you are ‘doing it’. Luckily for me, I loved what I was researching. It was the last thing I thought about before I went to bed and the first thing I thought about when I woke up in the morning. That said, although a Ph.D. might be a solo piece of research it is not a journey you take all by yourself – it has a cast of many and I would like to take this opportunity to acknowledge that enormous support I’ve received along the way.

Firstly, I would like to express gratitude to my co-academic advisors, Professor Thomas N. Garavan and Dr. Ronan Carbery for their insight, direction and encouragement during my ‘journey’ downs the rabbit hole. Tom thanks for nurturing my intellectual curiosity and early academic career – this amazing journey started with you. Ronan, thanks for being a sounding board and a compass when I was floundering. Hopefully, you both found the journey as interesting as I did.

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<td>ADHR</td>
<td>Advances in Developing Human Resources</td>
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<tr>
<td>AHRD</td>
<td>Academy for Human Resource Development</td>
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<td>ANGLO</td>
<td>Anglo Irish Bank</td>
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<td>AIB</td>
<td>Allied Irish Bank</td>
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<tr>
<td>BOI</td>
<td>Bank of Ireland</td>
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<tr>
<td>CAIB</td>
<td>Columbia Accident Investigation Board</td>
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<td>CAQDAS</td>
<td>Computer Assisted Qualitative Data Analysis Software</td>
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<tr>
<td>CBFSAI</td>
<td>Central Bank &amp; Financial Services Authority of Ireland</td>
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<tr>
<td>CID</td>
<td>Criminal Investigation Division</td>
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<td>CMS</td>
<td>Critical Management Studies</td>
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<tr>
<td>CA</td>
<td>Content Analysis</td>
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<td>CAT</td>
<td>Cognitive Appraisal Theories of Emotion</td>
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<td>CFTC</td>
<td>Commodity Futures Trading Commission</td>
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<td>CPI</td>
<td>California Psychological Inventory</td>
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<td>CS</td>
<td>Corporate Sustainability</td>
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<td>CSI</td>
<td>Corporate Social Irresponsibility</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>CWB</td>
<td>Counterproductive Work Behaviors</td>
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<tr>
<td>DDA</td>
<td>Discursive Devices Approach</td>
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<tr>
<td>DSM-IV</td>
<td>Diagnostics Statistical Manual of Mental Disorders (version 4)</td>
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<tr>
<td>EMH</td>
<td>Efficient Market Hypothesis</td>
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<td>EU</td>
<td>European Union</td>
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<td>FCIC</td>
<td>Financial Crisis Inquiry Commission</td>
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<tr>
<td>FBI</td>
<td>Federal Bureau of Investigation</td>
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<tr>
<td>FSA</td>
<td>Financial Services Authority</td>
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<td>HBOS</td>
<td>Halifax Bank of Scotland</td>
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<td>HCTC</td>
<td>House of Commons Treasury Committee</td>
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<td>HRD</td>
<td>Human Resource Development</td>
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<td>HRDR</td>
<td>Human Resource Development Review</td>
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<td>HRDI</td>
<td>Human Resource Development International</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>IAM</td>
<td>Irish Academy of Management</td>
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<tr>
<td>IBG-YBG</td>
<td>“I’ll Be Gone – You’ll Be Gone”</td>
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<td>IBOA</td>
<td>Irish Bank Official’s Association</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LD</td>
<td>Leadership Development</td>
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<td>LTCM</td>
<td>Long Term Capital Management</td>
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<td>LTV</td>
<td>Loan to Value</td>
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<td>MPT</td>
<td>Modern Portfolio Theory</td>
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<td>NAB</td>
<td>National Australia Bank</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>NASA</td>
<td>National Aeronautical Space Administration</td>
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<td>NPI</td>
<td>Narcissistic Personality Inventory</td>
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<td>OCB</td>
<td>Organizational Citizenship Behavior</td>
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<td>OCC</td>
<td>Office of the Comptroller of the Currency</td>
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<td>OD</td>
<td>Organizational Development</td>
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<td>OGAM</td>
<td>Organizational Governance &amp; Agency Mediation</td>
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<td>OTS</td>
<td>Office of Thrift Supervision</td>
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<td>PwC</td>
<td>Pricewaterhouse Coopers</td>
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<tr>
<td>QCAF</td>
<td>Qualitative Content Analytic Framework</td>
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<tr>
<td>RBOS</td>
<td>Royal Bank of Scotland</td>
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<tr>
<td>SHRD</td>
<td>Strategic Human Resource Development</td>
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<tr>
<td>SHRM</td>
<td>Society for Human Resource Management</td>
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<tr>
<td>SHRM</td>
<td>Strategic Human Resource Management</td>
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<tr>
<td>UCC</td>
<td>University College Cork</td>
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<td>UFHRD</td>
<td>University Forum for Human Resource Development</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>UL</td>
<td>University of Limerick</td>
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<td>US</td>
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<td>WaMu</td>
<td>Washington Mutual</td>
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DEDICATION

This Ph.D. is dedicated to my parents from whom I inherited my work ethic. I owe my parents more than I could ever repay - so to my parents Marie & John, I express a heartfelt thank you for all your love, support and patience. I know raising me has been a challenge most of the time but you love me anyway – unconditionally.
CHAPTER ONE
INTRODUCTION
“The ultimate measure of a person is not where they stand in moments of comfort and convenience, but where they stand in times of challenge and controversy”

Martin Luther King, Jr.

1.1 Introduction

This chapter provides an overview of the PhD by article. First, it outlines the background and rationale for pursuing this research. Second, it highlights the research aims and objectives. Finally, it illuminates the overall structure of the remaining chapters of the PhD by article.

1.2 Background and Rationale

The financial, economic and societal shocks that have reverberated around the world as a result of the global financial and economic crisis have led to many questions concerning its root causes. Although there has been intensive and at time derisive discussion about the similarities and differences between this financial crisis and others (Reinhart and Rogoff 2009) there is consensus in respect of where much of the blame lies.

The financial services sector along with regulatory and quasi-regulatory agencies have been identified as playing a central role in the crisis. Evidence of predatory lending practices (FCIC Report 2011; Fligstein and Goldstein 2010; US Senate Report 2010), regulatory failure (Barth et al. 2012; Honohan 2010b; Stiglitz 2010), bonus cultures and incentives structures (FSA. 2011; Treasury Select Committee 2009a, 2012), ethical failures of leadership, derailment and dysfunction (Brennan and Conroy 2013; McLean and Nocera 2010; Stein 2013; Whittle and Mueller 2012) and institutional failures (Herzig and Moon 2013; Perrow 2010; Stein 2011) illustrate significant people and organization issues. The various government commissioned financial crisis inquiry reports indicate myriad intellectual failures, endemic overconfidence [a cognitive bias] and over-optimism [affective disposition]

1 Throughout this thesis the global financial and economic crisis [encompassing the Irish, UK and US banking crises] will be referred to as the financial crisis

Claessens et al (2010), Honohan (2010b) and Moshirian (2011) have cited the dominant *laissez faire* ideology omnipresent in financial institutions as a primary reason for the failure of international regulatory supervision. Given that ideology reflects a “system of ideas, values and beliefs orientated to explaining a given political order, legitimizing existing hierarchies, power relations and preserving group identities” (Chiapello and Fairclough 2002, p.187) it is difficult to argue that the genesis of the financial crisis was the result of structural rather than evident cognitive and behavioral failures. Despite these observations, there has been limited engagement by management and organization scholars in exploring the cognitive and behavioral antecedents of the financial crisis. Moreover, if short-term incentives, intellectual failures and bonuses cultures played a role in the financial crisis then legitimate questions regarding the potential influence HR policies, practices & procedures\(^2\) may need to be asked. For example, if locker room cultures were pervasive in many banking institutions, how were these cultures facilitated, socialized and legitimized by HR interventions?

If the financial crisis was predicated on fundamental intellectual errors, management and leadership failures and questionable ethics and dysfunctional cultures (e.g. Fligstein and Goldstein 2010; Senate Hearings 2010c; Stein 2011; Treasury Select Committee 2012; Whittle and Mueller 2012) it seems surprising that the organizational function responsible for the development of the organization’s human capital has received little by way of critical analysis in either the public inquiries or extant HR literature. A central theme that has

\(^2\) HR policies, practices & procedures will henceforth be referred to as *HR interventions*
emerged from the financial crisis is one of embedded dysfunctional or *dark side* behaviors across multiple organizations and institutions at the center of the financial crisis.

Given the scale and impact that dysfunctional behaviors can have on individuals and organizations, it is hardly surprising that there has long been an interest in the study of *dark side* behaviors (e.g. Ashforth and Anand 2003; Bartunek 2002; Boddy 2011; Chatterjee and Hambrick 2007; Cohan 2002; Conger 1990; de Vries and Miller 1985; Kets de Vries 2006; Padilla et al. 2007b; Paulhus and Williams 2002; Resick et al. 2009; Rosenthal and Pittinsky 2006; Stein 2003, 2007; Vaughan 1999). Dark side behaviors cover a multitude of maladaptive and dysfunctional orientations and present at multiple levels within the organization. Dark side behaviors range from workplace deviance and incivility (Dunlop and Lee 2004; Fleming and Zyglidopoulos 2008; Griffin and Lopez 2005; Reio 2011; Robinson and Bennett 1995; Robinson and O'Leary-Kelly 1998) to unethical intent and behavior (Cole et al. 2008a; Felps et al. 2006; Furnham 2010; Gabriel 2012; Kish-Gephart et al. 2010; Levine 2005a; Levine 2010); from egoistic climates and dysfunctional cultures (Ashkanasy et al. 2006; Cohan 2002; Furnham et al. 2012; Goldman 2008; Greve et al. 2010; O'Boyle et al. 2012; Padilla et al. 2007b; Stein 2011; Thoroughgood et al. 2011) to organizational and institutional corruption (Ashforth and Anand 2003; Ashforth et al. 2008; Lange 2008; Misangyi et al. 2008; Nielsen 2003).

One of the more interesting and important areas of dark side research over the past decade has been that of organizational narcissism and narcissistic leadership. This area of research has particular relevance for HR scholars for a number of reasons. First, narcissistic behavior in its *grandiose* form reflects someone who is [over] confident, high in self-esteem, dominant, self-assured, sensation seeking, [prone to] excessive risk-taking and unwilling to take criticism (Brown 1997; de Vries and Miller 1985; Padilla et al. 2007b; Paulhus and Williams 2002; Stein 2007) – human characteristics considered central to the financial crisis.
Second, grandiose narcissism can impair leadership decision-making and organizational culture development (Campbell et al. 2011; Chatterjee and Hambrick 2007; de Vries 1990; Duchon and Burns 2008; Furnham 2010; Kets de Vries and Miller 1984; Pullen and Rhodes 2008; Rosenthal and Pittinsky 2006; Stein 2003; Stein and Pinto 2011a) thus impacting on the human capital, leadership and organizational development strategies of HR. Third, narcissistic leaders have the capacity to influence organizational norms, ethical behavior and moral development (Kets de Vries 2006; Prati et al. 2009; Resick et al. 2009; Stein 2000; Vaughan 1999; Whittle and Mueller 2012) thereby directly impacting on HR’s triple bottom-line philosophy.

Godkin and Allcorn’s (2009) paper exploring dependent narcissism posited that dependent narcissistic behavior could interrupt organizational learning resulting in organizational dysfunction potentially leading to organizational failure. This dark side behavior has the potential to result in a Dependent Organizational Disorder ultimately becoming a “cultural artifact” (p.485) embraced by organizational members. If this is the case, then it has implications for HR [and specifically HRD] in respect of organizational and cultural development. Similarly, Campbell et al. (2011) explored the concept of organizational narcissism and argued that “much of the current destruction in the financial and real estate industry….have the appearance of narcissistic damage at the meta-organizational level”. Despite this however, they argue that there is “very little empirical work addressing the topic” (p.272) which leaves a gap in our understanding of how or why individuals and organizations engage in narcissistic behaviors and what, if anything HR can do to ensure this type of dark side behavior does not embed in the organization. More crucially, we do not know how similar dark side behaviors migrate from organization to another, from one institution to the next. Stein (2011, p.174) however, did attempt to provide an answer for this multi-organizational dark side behavior and argued that profound cultural changes in
capitalist society many have resulted a sense of “manic denial” in which warning signs provoked more extreme risk-taking rather than more prudential behaviors. This raises an important question - if HRD plays a central role in the development of a functional organizational culture, then how did the profession not recognize culture change warning signs? A common theme that emerges from the research on the financial crisis focuses on dark side behaviors characterized by forms of narcissism, hubris, social dominance and Machiavellianism (Hogan and Kaiser 2005, p.176; Judge et al. 2009, pp.866-867).

The financial crisis can be viewed from three distinct perspectives [see Table 1.1] and while all three dimensions are critical in addressing the many systemic failures of the financial crisis (FCIC Report 2011; Honohan 2010b), it is the people, organization and institutional perspectives that are of significant importance to HR. Arguably, the strategic role HR plays in ensuring the long-term effectiveness and viability of the organization must be weighed against the potential negative impact of those interventions when they result in dark side behaviors.

**Table 1.1: Financial Crisis Antecedent Perspectives**

<table>
<thead>
<tr>
<th>Approach</th>
<th>Focus</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural Perspective</td>
<td>Regulatory enforcement failures; macroeconomic policy failures; government policy failures</td>
<td>(Honohan 2010b; Krugman 2012; Nyberg 2011; Perrow 2010; Reinhart and Rogoff 2009; Stiglitz 2010; Treasury Select Committee 2009a)</td>
</tr>
<tr>
<td>People, Organizational &amp; Institutional Perspective</td>
<td>Maladaptive cognitive failures; behavioral issues; management &amp; leadership dysfunction; risk taking &amp; decision-making failures</td>
<td>(Board 2010; Brennan and Conroy 2013; Campbell et al. 2011; Elliott 2013; MacKenzie et al. 2014; McDonald 2009; Mizruchi 2010; Munir 2011; Riaz et al. 2011; Shiller 2012; Stein 2013; Tett 2010b; Whittle and Mueller 2012; Yue et al. 2013)</td>
</tr>
</tbody>
</table>
HR as a profession and scholarly endeavor plays a central role in the development of management and leadership in organizations (Garavan 2007; Gold et al. 2009; Swanson 2001; Ulrich and Beatty 2001), creation and management of ethical organizational cultures (Ardichvili et al. 2012; Ardichvili et al. 2009; Foote and Ruona 2008; Greenwood 2013), strategies consistent with organizational development and sustained competitive advantage (Chan et al. 2004; Fiol 1991; Gubbins and Garavan 2009; Kim 2012; Tan 2009; Wei et al. 2008); and the creation of sustainable and socially responsible business enterprises (Ardichvili 2013; MacKenzie et al. 2012). Despite the strategic role and contribution of HR to organizational success – there has been limited critical engagement within the scholarly community in establishing how the failures of management, leadership, culture and ethics associated with the financial crisis are not considered HR failures.

The financial crisis can be described as systemic in nature in that the interconnection of diverse aspects of the global banking system were infected by contagion that progressed from a subprime crisis, to a credit crunch, to a liquidity crisis, then banking institution solvency crisis and ultimately to Eurozone sovereign debt crisis and finally a global recession (Davis and Zhu 2011; Haiss 2010; Nyberg 2011). Given the human agency issues, it is also fair to say that the financial crisis was also cognitively and behaviorally systemic. That is, while the global banking system appeared to exhibit an evolution in human ingenuity, intellectual prowess and unbridled success (Perrow 2010; Tett 2010a) under the surface the behavior in many banking and regulatory institutions was undoubtedly dark side and dysfunctional (see Bolino et al. 2013; Furnham 2010; Gabriel 2012; Paulhus and Williams 2002; Stein and Pinto 2011b). These dark side cognitive and behavioral issues described by Furnham (2010, p.4) as “obscure, devious, dismal and menacing...coexisting with well-developed social skills that mask or compensate” go to the heart of why the global banking system was brought to the brink of collapse following the failure of Lehman Brothers on September 15th 2008. More
importantly, it highlights the potential darker side of HR failure. Whilst the aforementioned literature has been informative, there is a lacuna in respect of two specific areas of interest:

- First, what is known from the public inquiries exploring the cause of the financial crisis is that management and leadership failures as well as intellectual and ideological failures suggest cognitive and behavioral issues played a critical role in the legitimation of dark side behaviors in many banking institutions (see FCIC Hearing 2010b, e; Honohan 2010b; Treasury Select Committee 2010, 2012; US Senate hearings 2010, 2011a). What is not known however is just what role, if any HR interventions played in developing these dark side behaviors?

- Second, although the reports on the crisis are informative the analysis fails to engage with the cognitive and behavioral issues that appear narcissistic in nature. Whilst there has been some insightful research exploring the concept of dark side behaviors in respect of the financial crisis (Campbell et al. 2011; Stein 2011, 2013; Whittle and Mueller 2012) - to our knowledge there has been no research that looks at how these dark side behaviors are influenced by HR interventions. Despite considerable interest in the financial crisis – it is still unclear as to whether the actions of individuals and organizations were driven purely by self-interest [rational perspective] or whether affective dispositions such as excessive pride, hubris, perceived invulnerability, boundless knowledge [cognitive / behavioral] were fundamental to the crisis.

With the exception of Ardichvili et al. (2012) who explored multi-level perceptions of ethical business cultures in six countries and Ardichvili’s (2013) insightful use of Habitus to explore the links between CSR, sustainability and ethics, there has been limited empirical or theoretical engagement by the HR community as to whether or not HR interventions facilitate and legitimize the development of dark side behaviors such as those central to the financial crisis. Notwithstanding Elliot’s (2013) call to arms and Ardichvili et al. (2012, p.350)
laudable appeal to consider the interplay between “organizational identity, culture and socialization of dysfunctional behaviors” such as narcissism, there is still reluctance within the HR community to engage fully with interventions that may facilitate and perhaps encourage dark side individual and organizational behaviors. The financial crisis has provided an exceptional source of primary and secondary data with which to address the lacunae identified above, yet there appears to be little interest in considering the impact HR interventions can have on organizational function and dysfunction. Table 1.2 illustrates the HRD specific research that explores either dark side behaviors (e.g. Godkin and Allcorn 2009; Reio 2011a) or antecedents that might lead to the emergence of dark side behaviors (e.g. Ardichvilli 2013; McCarthy and Sheehan 2014) since the start of the financial crisis in 2008. While there is some engagement, it is mostly focused on either theoretical or editorials highlighting the need to take a more exploratory approach to understanding dark side organizational behavior.

**Table 1.2: HRD Research on the Financial Crisis**

<table>
<thead>
<tr>
<th>Publication</th>
<th>Author &amp; Year</th>
<th>Focus / Theme</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Resource Development Review [HRDR]</strong></td>
<td>(Godkin and Allcorn 2009) (Ardichvili 2013; Callahan 2013)</td>
<td>• Dependent Organizational Narcissism / Organizational Learning Impact • Organizational Subsystems, Power, Knowledge and Habitus • Critical discourse on reinvention of dominant power structures</td>
<td>Theoretical Editorial Theoretical</td>
</tr>
<tr>
<td><strong>Human Resource Development Quarterly [HRDQ]</strong></td>
<td>(McLean 2010; Wang 2011) (Herschovis and Cameron 2011; Trudel and Reio 2011) (Valentine et al. 2013)</td>
<td>• Call for HRD to engage in more critical discourse and explore more ‘challenging’ research • Managing workplace incivility • The role of HR/HRD interventions in promoting organizational ethics and positive employee well-being</td>
<td>Editorial Editorial Theoretical</td>
</tr>
<tr>
<td><strong>Advances in Developing Human Resources [ADHR]</strong></td>
<td>(Garavan et al. 2010; Ghosh et al. 2011b) (Callahan 2011; Ghosh et al. 2011a; Tourangeau and Smith 1996) (Coyne 1997) (MacMillan 2005; McCarthy 2014; Saunders et al. 2003)</td>
<td>• HRD’s role in embedding ethics, sustainability and CSR • Impact of workplace incivility • Development of civil and respectful organizations • <strong>Understanding public sector leadership in time of uncertainty</strong></td>
<td>Theoretical <em>Empirical</em></td>
</tr>
</tbody>
</table>
1.3 Research Aim and Objectives

The research aim of this thesis is largely driven by the need to explore the cognitive and behavioral dimensions of the financial crisis. In doing so, it is hoped that this research can exploit the dearth of empirical research on the impact of dark side organizational behaviors.

The research aim that drives this thesis is:

To explore the cognitive and behavioral dimensions of dark side organizational behavior in the context of the global financial & economic crisis from a HR perspective

In pursuit of this research aim, a number of research objectives have been identified.

**Objective 1:** Identify and describe antecedent conditions that can contribute to dark side organizational behavior using the global financial crisis as the context

**Objective 2:** Explore the theoretical underpinning of Human Resource Development in determining how this has the potential to facilitated, legitimate and normalize dark side behaviors in the context of the financial crisis

**Objective 3:** Examine whether cognitive and behavioral dispositions developed into dark side organizational behaviors within the field of banking and finance and address the implications for HR

1.4 Contribution to Knowledge

This thesis makes a number of contributions to existing knowledge of dark side organizational behavior. These contributions can be categorized as conceptual, empirical, theoretical and methodological contributions. The conceptual, empirical and theoretical contribution is evidenced by the development of a governance role for senior HRD practitioners – the Organizational Governance & Agency Mediation Role. Through the development of the role, this thesis contributes to the on-going debate about credibility and legitimacy of HRD (Bierema 2009; Elliott 2013; Fenwick 2004; McGuire and Garavan 2011; O'Donnell et al. 2006; Trehan and Rigg 2011); provides a more quasi-empirically based
understanding of how HRD interventions can contribute to and perhaps resist ‘dark side’ organizational behaviors (cf Godkin and Allcorn 2009; Godkin and Allcorn 2011); and contributes to the conversation on the role of HRD in developing ethical and sustainable cultures and developing ethically aware management and leadership (Ardichvili 2013; Ardichvili et al. 2012; Foote and Ruona 2008).

This thesis also makes an empirical and theoretical contribution to our understanding of why individual may engage in similar types of risk-taking and poor decision-making behavior by expanding on the Cognitive Appraisal Theory of emotion (Frijda et al. 1989; Kiffin-Petersen et al. 2012; Roseman et al. 1990). By examining how some HRD interventions can invoke ‘extreme’ emotions, HRD practice and policies can be modified to ensure extreme emotions do not morph into ‘dark side’ behaviors. This thesis also make a methodological contribution by highlighting the use of alternative unobtrusive methods to explore extra sensitive organizational issues that future HRD scholars may utilize when exploring organizational topics overlooked as a result of being too sensitive or too difficult to study due to access issues. Finally, this thesis makes a number of practical contributions as many of the findings of this research potentially have implications for practitioners, scholars and policy-makers.

1.5 PhD Structure

This PhD takes the form of an Article-Based PhD. In recent years the University of Limerick has adopted this innovative approach to presenting PhD research and is broadly based on the “Scandinavian PhD model” which comprises a number of articles that form the basis of the candidate’s independent research. Given the fluid nature of the financial crisis and the challenges associated with researching a sensitive subject matter such as dark side organizational behaviors, the Article-Based PhD method allowed for a thorough and robust scholarly exploration of the cognitive and behavioral causes of the financial crisis,
specifically the dysfunctional cognitive and behavioral dispositions of a significant cohort of institutional actors.

This PhD is based on three articles published in peer-review journals. Article number one is a theoretical piece exploring dysfunctional organizational behavior from a HRD perspective. The second article is derived from a content analysis of the official reports and public inquiries and explores the theoretical underpinnings of HRD as potential reasons for the failures in management & leadership, knowledge and intellect. The second article was developed to contribute to the thought-provoking conversation within the HRD community and in some respects, to start a new conversation. The third article is an empirical piece based on content, textual and documentary analysis of the public inquiries in the US, the UK and Ireland that sought to uncover the causes of the financial crisis. A comprehensive list of what primary and secondary data formed the basis of the empirical papers is laid out in the methodology chapter (see Chapter Three).

Diagram 1.1 illustrates the overall research aim, associated objectives and the papers in which these objectives are addressed. Each of the objectives is derived from the overall research aim ‘To explore the cognitive & behavioral dimensions of ‘dark side’ organizational behaviors in the context of the global financial & economic crisis from a HR perspective’. Each of the research objectives also has a number of sub-objectives, which may be addressed in more than one paper. For example the sub objectives in research objective 1 [ROI] ‘to review the literature on dysfunctional organizational behavior from a multi-level perspective’ and ‘to develop a conceptual model to illustrate dysfunctional behavior at multiple levels of analysis’ are consistent throughout all three articles. Figure 1.2 illustrates the article progression from conference paper to publication with the invited book chapters bridging each of the articles in peer-reviewed journals.
Figure 1.1: Ph.D. Publication Framework

Research Aim:
To explore cognitive & behavioural dimensions of ‘dark side’ organizational behaviour in the context of the global financial & economic crisis

Research Objective [RO 1]:
Identify and describe antecedent conditions that contribute to dysfunctional organizational behaviour using the global financial crisis as the context

Sub Objectives [RO 1]:
- To review the literature on dysfunctional organizational behaviour from a multi-level perspective using the global financial crisis as the contextual frame
- To define dysfunctional behaviour at the individual, organizational and institutional levels of analysis
- To develop a conceptual model to illustrate dysfunctional behaviour at multiple levels of analysis
- To make a theoretical contribution to the HR literature

Research Objective [RO 2]:
Explore the theoretical underpinning of Human Resource Development in determining how this has the potential to facilitated, legitimate and normalize dark side behaviors in the context of the financial crisis

Sub Objectives [RO 2]:
- To consider alternatives hypothesis other than the ‘failure of regulation’ as possible causes of the global financial crisis
- To explore the theoretical facilitators of ‘dark side’ behaviour that underscore the practice of HRD
- To make a provocative contribution to the HRD literature to advance critical engagement among scholars and practitioners

Research Objective [RO 3]:
Examine whether cognitive and behavioral dispositions developed into dark side organizational behaviors within the field of banking and finance and address the implications for HR

Sub Objectives [RO 3]:
- To explore the cognitive and behavioural dimensions of ‘dark side’ organizational behaviours
- To explore the characteristics & theoretical dimensions that may help explain ‘dark side’ organizational behaviors from a HRD perspective utilizing Cognitive Appraisal Theory
- To make a theoretical and empirical contribution to the HRD literature exploring what influences the decision-making and risk-taking cognitive processes of individuals in high risk business environments
- To illuminate what antecedent conditions are likely to produce ‘dark side’ decision-making behaviors

Primary Objective
Secondary Objective
Invited book chapter
**Figure 1.2: Ph.D. Research Output from Various International Conferences**

<table>
<thead>
<tr>
<th>Year</th>
<th>Conference Paper &amp; Location</th>
</tr>
</thead>
</table>
| **2010** | UFHRD June 2010 Pécs, Hungary  
Dysfunctional behaviour in organizations: Can HRD reduce the impact of dysfunctional organizational behaviour – A review and conceptual model |
| | IAM September 2010, Cork Institute of Technology  
Irish Banking: A Comparative Analysis of Canadian and Irish Bank Lending Practices |
| | Human Resource Development Review (HRDR)  
December 2011  
Understanding and Preventing Dysfunctional Behavior in Organizations: Conceptualizing the Contribution of HRD |
| **2011** | UFHRD May 2011 Gloucestershire, UK  
CSR, Ethical Panacea or Organizational Rhetoric: HRD as a Moderator of Organizational Ethical Behaviour |
| | CMS conference, July 2011, Naples, Italy  
Re-conceptualizing HRD Through A Critical Lens: Creating an Ethically Cognizant, Organisationally Aware and Socially Responsible Environment |
| | International Studying Leadership Conference December 2011, Bristol U.K.  
Black Swans, Social Silence & Narcissism: ethical dilemmas in a crisis environment |
| **2012** | IFSAM Conference June 2012, University of Limerick, Ireland  
Organizational Narcissism and the Global Financial Crisis – Addressing the Hard Questions |
| | Human Resource Development International (HRDI)  
February 2012  
Through the looking glass: challenges for HRD post global financial crisis – business as usual? |
| | Advances in Developing Human Resources (ADHR)  
March 2013  
The Global Financial & Economic Crisis: Did HRD play a role? |
Figure 1.3: Future Research Output based Empirical Data from Ph.D.

<table>
<thead>
<tr>
<th>Year</th>
<th>Conference Paper &amp; Location</th>
<th>Working Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>UFHRD June 2010 Pécs, Hungary</td>
<td>Dysfunctional behaviour in organizations: Can HRD reduce the impact of dysfunctional organizational behaviour - A review and conceptual model</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>IAM September 2010, Cork Institute of Technology</td>
<td>CSR, Ethical Panacea or Organizational Rhetoric: HRD as a Moderator of Organizational Ethical Behaviour</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>IFSAM Conference June 2012, University of Limerick, Ireland</td>
<td>Organizational Narcissism and the Global Financial Crisis – Addressing the Hard Questions</td>
<td></td>
</tr>
</tbody>
</table>

Working Title:
Corporate Social Irresponsibility: not just the flipside of CSR
Provides a theoretical framework for the concept of CSI

Working Title:
HR Sin Eaters
Critical examination of how HR policies, practices & procedures ‘absolve’ the organizations ‘sins’

Working Title:
Black Swans & Social Silence
Exploration of Institutional Risk & Professional Elites

Working Title:
Institutional Narcissism: professions under the spotlight
Explores the concept of institutional narcissism
The structure of the remainder of this thesis is as follows. Chapter two is a literature review outlining the gaps in the extant literature that this research aims to address. Chapter three outlines the methodology employed. Chapter four presents an overview of the published articles and outlines how these published articles address the research aim and objectives set out in Chapter one. The published articles are also included in this chapter. The fifth and final chapter concludes by outlining the main contribution of the research, the limitations, and future research output that has the potential to make contributions to the field of HR, organizational behavior, management and leadership development. The fifth chapter will also provide some insight and learning outcomes of pursuing a PhD by article.
CHAPTER TWO
LITERATURE REVIEW
2.1 Introduction

This chapter will present a review of the general research on dark side behavior, the impact of these behaviors on organizational failure and the implications for HR. This chapter begins with an overview of dark side organizational behaviors, followed by the research context within the banking & financial sector. This chapter then moves to identify the cognitive and affective factors that influence excessive risk-taking and poor decision-making. This chapter then explores the literature on organizational narcissism; a dark side behavior exhibited at many levels within the financial services sector and government agencies. This chapter will then explore the concept of social silences as an institutional risk factor that potentially legitimizes dark side behaviors. Finally, the chapter will conclude by illuminating how the role of HR [primarily HRD with some elements of HRM] may have played a central role as a catalyzing agent that rather than removing the punchbowl when the party was getting started [in terms of extreme behaviors] may have legitimated dark side behaviors and exacerbated the impact of these behaviors within and beyond the organizational boundaries.

2.2 Dark Side Organizational Behavior

Whilst success stories of companies such as Google [now a verb in the Oxford English Dictionary], Apple, Johnson & Johnson, Microsoft and Intel among others represent well-functioning and valuable organizations (Forbes 2014) – other organizations, like people have the potential to become dysfunctional. The field of management and organization studies has traditionally been focused on the positive impact that organizations can have on communities, economies and society at large. However, the metaphors used to describe the duality of the dark and light side of the human condition have only recently emerged as a concern for
management and organization scholars (e.g. Bolino et al. 2013; Brennan and Conroy 2013; Financial Times 2012; Krasikova et al. 2013; Rijsenbilt and Commandeur 2013; Soltani 2014; Stein 2013; Whittle and Mueller 2012; Zettler and Solga 2013; Zona et al. 2012). Over the past two decades management and organization scholars have sought a greater understanding of the dark side of organizations and the individuals that inhabit them. The extant dark side research has focused on the dark side of organizational behavior (Ashforth and Anand 2003; Dellaportas et al. 2007; Dunlop and Lee 2004; Griffin and Lopez 2005), the dark side of management and leadership (Boddy 2011; Bollaert and Petit 2010; Brennan and Conroy 2013; Chatterjee and Hambrick 2007, 2011; Conger 1990; Dong et al. 2012; Einarsen et al. 2007; Kets de Vries 2006; Padilla et al. 2007b; Paulhus and Williams 2002; Rosenthal and Pittinsky 2006; Stein 2007, 2013), the dark side of organizations and cultures (Campbell et al. 2005; Duchon and Burns 2008; Gabriel 2012; Hatch and Schultz 2002; Kets de Vries and Miller 1984; Levine 2005a; Sims and Brinkmann 2003; Stein 2003; Vaughan 1990, 1999) and the dark side of institutions (Begley et al. 2010; Nielsen 2003; Stein 2011). Despite the diverse range of research foci, a common theme that emerges is that dark side behaviors are reflective of the thoughts, actions and failures of people in their environments. Consequently, this has implications for the theory and practice of HR (e.g. Ardichvili 2013; Campbell et al. 2011; Foote and Ruona 2008; Werbel and Balkin 2010; Whittle and Mueller 2012) and more recently the work of Gold and Bratton (2014) and Collings (2014).

The financial crisis has brought into stark reality the negative impact dark side behaviors can have on multiple actors across multiple institutions. As Linstead et al. (2014: 166) trenchantly argued, the issue is less to do with “out there” and more to do with the “dark interior to be found within organizational boundaries and practice”. It is perhaps this recognition that epitomizes that the many people failures synonymous with the financial crisis (Barth et al. 2012; Brennan and Conroy 2013; Stiglitz 2010; Whittle and Mueller 2012) might also
indicate failures of the organizational function tasked with developing the organization, its culture and the people who inhabit it - HR.

2.2.1 Understanding Dark Side Behavior

In its critique of the regulatory failures of HBOS, the Parliamentary Commission on Banking Standards (2013: 28) concluded that “….too much supervision was undertaken at too low a level – without sufficient engagement of the senior leadership” and it was this approach that “encouraged the Board of HBOS to believe that they could treat the regulator as a source of interference to be pushed back”. The HBOS case provides a clear example of how resistance to regulation and regulatory enforcement failures may have legitimized business strategies centered on excessive risk-taking to achieve short-term objectives at the risk of longer-term organizational viability. The UK Financial Services Authority [FSA] may have relied too much on banking institutions’ ability to self-regulate (Barth et al. 2012) thus abdicated its responsibility for regulatory oversight to the institutions themselves. The deferential treatment regulators had for bank leadership was also evident in the US Senate Report (2010: 5) which argued:

“…[Regulators] hindered by a culture of deference to management, demoralized examiners, and agency infighting, OTS officials allowed the bank’s short term profits to excuse its risky practices and failed to evaluate the bank’s actions in the context of the U.S. financial system as a whole. Its narrow regulatory focus prevented OTS from analyzing or acknowledging until it was too late that WaMu’s practices could harm the broader economy”

Arguably, these two extracts indicate regulatory enforcement failures; however, they also illuminate something more critically important to management and organization behavior
scholars – the cognitive and behavioral dimensions of the financial crisis and the potential for organizational behaviors to reflect a more dark side orientation.

Despite the burgeoning literature focused on the positive impact of organizational behavior, it is the darker side of organizational behavior that, in light of the financial crisis necessitates a more insightful critique. Understanding how an organization can attain and maintain competitive advantage is important for scholars and practitioners, none more so than HR given that they can demonstrate how management skills, organizational structures, policies, practices and procedures inter alia contribute to organizational success (Garavan 2007; Peterson 2008; Wright 2008). However, there is a flip side to management skills, organizational structures, policies, practices and procedures that facilitates the emergence and legitimation of dark side behaviors. Recently, the Federal Bureau of Investigation (2014) reported that corporate fraud remains one of the highest priorities for the Criminal Investigation Division [CID] of the FBI citing the fact that a number of the 726 corporate fraud cases being pursued by the FBI involve losses to public investors that individually exceed $1 billion. Indeed, in light of the financial crisis impact, one might reasonably expect to see a reduction in the number of fraud cases being prosecuted – in fact, the opposite is true. A similar report issued by Pricewaterhouse Coopers [PwC] confirmed what the FBI have reported and found startling evidence that corporate fraud may be on the increase rather than decrease. PwC (2014) established that in Financial Services firms:

“…economic crime increased by 50% from 12% in 2009 to 18% in 2011 suggesting that the response by regulators and governments to the financial crisis of imposing more rules and regulations has not sufficiently managed the integrity or conduct risk, i.e. the risk that people are not doing the right thing when no one is looking”
The most damning finding of the report was that increased regulatory enforcement [as a result of the financial crisis] failed to address the proclivity of individuals and organizations to act without “integrity or conduct risk”. The PwC report indicates that in financial services firms [above others], managers and leaders are likely to engage in behavior that could be considered dark side. This report raises a number of questions. For example, what drives individuals and organizations to continue to engage in dark side behavior when nobody is looking? Are there moral / ethical reasons for this behavior? Why might this behavior be more prevalent in the financial services sector? Is dark side behavior legitimated within some social construction of reality – one in which finance professionals either fail to see the negative consequences of their behavior or don’t believe the behavior is dark to begin with. Do HR interventions facilitate or circumvent this type of behavior from becoming normalized? According to the PwC (2014: 6) report, fraudulent behavior is likely to occur across the managerial hierarchy divide with senior management [39%], middle management [39%] and junior staff members [18%] actively engaged in one form or another of fraudulent behavior. This finding is critically important in respect of current and future dark side research. As is clear from both the PwC and FBI reports - addressing the outcomes of dark side behavior is not the same as addressing its antecedents. In other words addressing the symptoms of dark side behavior [e.g. fraud, corruption, mis-selling of insurance policies, predatory lending practices] is not the same as addressing the root cause [what drives the behavior] which almost certainly has the potential to result in organizational crises, disasters and failures (Paulhus and Williams 2002; critically Stein 2003).

2.2.2 Dark Side Behavior – defining the concept

The concept of dark side organizational behavior is to some degree an under researched concept in the management, leadership and organizational studies literature. There are however, a number of notable articles that have attempted to advance the topic (e.g.
Balthazard et al. 2006; Dellaportas et al. 2007; Duffy et al. 2006; Lawrence and Robinson 2007b; Paulhus and Williams 2002). Whilst the general management and organizational behavior literature exploring dark side research has been limited, it is even more pronounced in the HR literature save for a number of insightful pieces (see Callahan 2011; Ghosh et al. 2011a; Ghosh et al. 2011b; Godkin and Allcorn 2011; Trudel and Reio 2011). As the negative impact from the financial crisis has continued to unfold, there has been an upsurge in the dark side literature. For the purposes of clarity, the concepts of dark side and dysfunctional behaviors will be used interchangeably as they reflect a darker nature in people and organizations that have the capacity to lead to some form of organizational crises or disaster (Shrivastava et al. 1988; Turner 1976, 1994).

Over the past two decades the extant literature has explored the dark side concept from multiple levels and perspectives - from workplace deviance, incivility and counterproductive behaviors (Andersson and Pearson 1999; Aquino and Thau 2009; Bennett and Robinson 2000; Cortina 2008; Duffy et al. 2002; Hepburn and Enns 2013; Robinson and Bennett 1995; Robinson and O'Leary-Kelly 1998; Warren 2003) to unethical behavior and corruption (Chikudate 2002; De Hoogh and Den Hartog 2008; Giroux 2008; Greenfield 2010; Jensen et al. 2009; Lipton 2002; Sherman 2002; Sims and Brinkmann 2003; Trevino 1986; Trevino et al. 2006; Werther 2003a); from leadership derailment and dysfunction (Aasland et al. 2010; Board 2010; Boddy 2011; Einarsen et al. 2007; Felps et al. 2006; Furnham 2010; Furnham et al. 2012; Gustafson and Ritzer 1995; Judge et al. 2009; Kets de Vries 2006; Leap 2008; Lewellyn and Muller-Kahle 2012; Stein 2000; Stein 2005) to organizational corruption and deceit (Anand et al. 2005; Ashforth and Anand 2003; Ashforth et al. 2008; Greve et al. 2010; Levine 2005a; Stein 2003, 2011; Whittle and Mueller 2012). Dark side behavior therefore exists on multiple levels along a continuum that ranges from relatively benign behavior such
as incivility at one end of the spectrum to fraud and corruption at the opposite end of the spectrum.

There have been a number attempts to correlate dark side behaviors with performance / failure or develop instruments to capture various types of dark side behaviors. Robinson and Bennett (1995) and Bennett and Robinson (2000) for example, are credited with developing one of the first multi-dimensional scales to measure workplace deviance and its impact on the individual and organization. The utility of this scale has significance in that it can identify antecedent conditions that may lead to various types of deviant behavior which may act as an early warning indicator of more fundamental organizational issues. Similarly, Chatterjee and Hambrick (2007) and Brennan and Conroy (2013) utilized text based searches to determine the impact of specific dark side behaviors [narcissism and hubris] on organizational performance and found some evidence to support their hypotheses / arguments that these dark side traits can have positive as well as negative effects of the organization. Furnham et al. (2012) also found evidence that a number of dark side behaviors can be positively linked with individual and organizational success, for example high self-confidence, risk-taking and cunning correlate strongly with sales type personalities and are associated with success in this field. That said the narcissistic dispositions associated with successful CEO’s that Chatterjee and Hambrick (2007) found are also posited to turn from a positive to a negative attribute as power grows (Furnham et al. 2012: 912) potentially resulting in leadership derailment.

Although much of the literature has explored aspects of dark side behavior in the context of the individual, group perspectives – there is a dearth of pre-existing empirical literature that advances our understanding of how and why dark side behavior becomes socialized and legitimized at the organizational and institutional [field] level. Scholars such as Campbell et al. (2011), Shadnam and Lawrence (2011) and Stein (2011) have argued that understanding the interplay between hierarchical levels and variants of dark side behavior might shed light
on the antecedent conditions that legitimize the socialization of these behaviors. Stein (2011) for example, posited that a manic culture [reflective of a number of narcissistic dimensions] played a significant role in the decision-making behavior of the political and financial leadership in many countries impacted by the financial crisis. Crucially, Stein contends that a change in culture metastasized over a multi-decade “incubation period” that ultimately resulted in regulators and governments “abdicating their authority by facilitating excessive and reckless financial liberalization” (p.174). Stacey (2010) however offers a more clinical critique of the “incubation period” highlighted by Stein and argued that it was the shareholder primacy ideology that ultimately absolved managers and leaders from any responsibility other than maximizing shareholder wealth and pointed the finger back at academia for developing theories to which those engaged in dark side behaviors could use to rationalize and justify that behavior.

Following organizational failure, there is generally a rush to reassert institutional legitimacy (Brown 2004) by focusing on the low hanging fruit – in the case of the financial crisis, that fruit was regulatory enforcement failure. The concern with this rush to judgment is that it has the potential to downplay root causes of the crisis and subsequently minimize the impact of the social environment as an important antecedent as Vaughan (1999: 271) insightfully argued:

“...the irony here is that we learn much about how things go wrong, but absent the tools of organization theory, the full set of social organized circumstances that produced these harmful outcomes remains obscure”

Dark side research then seeks to recognize the importance of trying to understand the how, why, when and where dark side behavior is likely to emerge, embed and become institutionalized. Despite the upsurge in interest, the theoretical research has often far
outweighed the empirical studies of dark side behaviors and this is perhaps one of the primary reasons why studies exploring the dark nature of individuals and organizations fail to gain traction within the research community until such time as a critical event, organizational disaster or failure occurs (Buchanan and Denyer 2013; Gephart 1993; Shrivastava et al. 1988).

2.2.3 Notable Empirical Dark Side Research

Empirical research exploring dark side organizational behaviors has often utilized retrospective approaches [public inquiries] in understanding the negative impact of these behaviors (e.g. Dellaportas et al. 2007; Gephart 1984, 1993; Stein 2000; Stein 2003; Turner 1976, 1994; Weick 2010; Werther 2003a; Whittle and Mueller 2012) and while interviewing witnesses central to an organizational failure as a result of dark side behavior is optimal, it is generally not feasible. Public inquiries then provide a very valuable retrospective means by which researchers can understand how and why dark side behaviors can become socialized and legitimized in organizations that fail as a result of these dark side behaviors. Dellaportas et al. (2007) for example, utilized content analysis to explore dysfunctional subculture on one of the trading desks at National Australia Bank [NAB] that led to losses of AUD$360 million in 2004. They concluded that NAB’s crisis was predicated on an organizational culture that was profit driven and encouraged excessive risk-taking within an environment where recruitment policies focused on recruiting individuals capable of generating outstanding profits at the cost of prudential business practices and where leaders were dismissive of those questioning the sales driven culture. Interestingly, the traders who comprised the dark side subculture at the bank had exploited the “organizationally wide ignorant and bureaucratic culture” (p.1449) that was more focused on process and procedure rather than understanding the organizational dynamics that drove organizational performance. Patrick Honohan (2010b) Governor of the Irish Central Bank also found that an “unduly hierarchical CBFSAI culture
discouraged challenge” within an “unwieldy organizational structure” and that these were certainly factors that contributed to the Irish banking crisis. Brown (2000, 2004, 2005), Gephart (1984, 1993, 2004), Stein (2003, 2011), Vaughan (1990), and Weick (1990, 1993, 2010) have all utilized retrospective analyses of organizational failures to understand the behavioral dimensions that led to those organizational failures. Vaughan (1990) exploited a number of government commissioned reports on the Challenger disaster as well as other archival material to gain insight into management and leadership failures at NASA. Vaughan (1990) highlighted a number of contributory independent variables that increased the likelihood of a major disaster at NASA that included: regulatory enforcement failure, power distance issues and sanctions against contrarian opinions which sadly were once again central to the Columbia disaster in 2003 and more recently in many banking and regulatory agencies at the center of the financial crisis. The Columbia Accident Investigation Board (CAIB 2003: 200-201) found that:

“NASA’s culture of bureaucratic accountability emphasized chain of command, procedure, following the rules, and going by the book. While rules and procedures were essentially for coordination, they had an unintended negative effect. Allegiances to hierarchy and procedure had replaced deference to NASA engineers’ technical expertise”

Whilst the CAIB’s investigation into the Columbia disaster highlights multiple organizational factors that contributed to the loss of the Columbia space shuttle they are confined to one organization and reflect they dynamics that are present in every organization. However, these ‘variables’ are also notable in the context of the financial crisis. The CAIB investigation illuminated the potential for subtle dark side behaviors such as silencing of contrarian opinions to become normalized. The inability to effectively challenge the overriding
orthodoxy in the case of NASA led to the emergence of an organizational culture that legitimized the sanctioning of contrarian opinion with disastrous costs – human life.

A dysfunctional organizational culture has the potential to evolve into more destructive dark side behaviors as highlighted by the Enron case. Levine (2005b) posited that unethical and corrupt behavior were considered non-issues at Enron, indeed one Enron executive stated that the company simply viewed “rules differently than other people” (p.727). Rule bending became an organizational norm, embedded in the cultural values whereby organizational members derived a certain pride in “getting around the rules”. More recently, Campbell & Göritz (2014: 306) found three core dimensions of corrupt cultures: they are means / end driven; organizational members value job security and will engage in unethical / corrupt behavior if it results in job security; and members of a corrupt culture will punish ethical rather than non-ethical behavior. This indicates that the socialization of dark side behaviors are likely to be legitimized within an organization that is profit driven and has a short-term orientation and may even from part of the social construction of the self or group. It may even form part of an ideological disposition (Ashforth et al. 2008; Stein and Pinto 2011b).

In corrupt cultures, organizational members may not even realize they are engaging in dark side behaviors as it has become normalized in what Banfield 1958 (cited in Ashforth and Anand 2003) refers to as “amoral familism”, that is the tendency to display morality only to ones “family” [in-group / professional affiliation]. Enron and National Australia Bank represent many characteristics / dimensions evident in banking institutions in Ireland, the UK and US in the year’s preceding the financial crisis. Like middle-level managers, traders and professionals that comprised the core of Enron that proclaimed themselves to be the smartest guys in the room (Werther 2003b) and the deviant sub-culture in NAB, professionals within many banking institutions central to the financial crisis espoused a similar narrative as graphically captured by Lord Turner chairman of the UK Financial Services Authority [FSA]
during his testimony at the UK public inquiry hearing into the causes of their financial crisis (Treasury Select Committee 2010: 277):

“...I think it is important to realize the world was awash with erudite, authoritative arguments put forward not just by bankers who had a self-interest in it [free market ideology] but by theoretical economists who thought that they were looking at this in a disinterested fashion, who were arguing that the world, as a result of the development of structured credit and derivatives, had become less risky...so I think there was a very fundamental intellectual failure”

Turner’s illustration of fundamental intellectual failures on a very wide scale differentiates the financial crisis from other banking institution failures in that this was a cognitive and behavioral failure within a profession that had believed risk had all but been removed from the world of finance. This is a critical observation and supports Vaughan’s (1999) contention that in looking only at how things go wrong, we distance ourselves from understanding why they go wrong. Doing so results in limitations in our ability to effectively critique the social conditions in which dark side behavior is facilitated, legitimated and socialized. Moreover, we may become predisposed to identifying only those antecedent conditions that are legitimated within the orthodoxy that forms part of the social construction of reality within which those actors exist. Accordingly, for dark side behavior to become embedded it requires a number of imbalances such as in power, knowledge, intellect and social desirability to become socialized and legitimized within the field and beyond. Indeed, Vaughan (1999, pp.280-281) provides insight into how this might happen and argued “individuals make the problematic non-problematic by formulating a definition of the situation that makes sense of it in cultural terms, so that in their view their action is acceptable and non-deviant prior to the act”. Vaughan clearly elucidates how dark side behaviors can be perceived by members of a group or profession to be benign to the point of non-issue. There is therefore a need to
understand the organizational mechanisms and structures that legitimize the cognitive and behavioral disposition. Tables 2.1 and 2.2 provide definitions of dark side behavior from a multi-level perspective
<table>
<thead>
<tr>
<th>Author</th>
<th>Dark Side / Dysfunctional Behavior</th>
<th>Definition / Characteristics</th>
<th>Level of Analysis</th>
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| Berry et al. (2007); Brennan & Conroy (2013); Brown and Trevino (2006); Dunlop and Lee (2004); Flemming and Zychopoulous (2007); Griffin and Lopez (2005); Lawrence and Robinson (2007); Litzkey et al. (2006); Robinson & Bennett (1995); Plamer (2008): | • (Bad Behavior) Deviant Behavior  
• Aggressive Behavior  
• Organizational Wrongdoing  
• Collective Wrongdoing  
• Narcissism | “….any form of intentional behavior that is potentially injurious to the organization and/or individuals within the organization” (Griffin & Lopez 2005)  
“….voluntary behavior that violates organizational norms….threatening the wellbeing of the organization or its members” (Robinson & Bennett 1995)  
“….behavior perpetrated by organizational officials (i.e. directors, managers, and/or employees) in the course of fulfilling their organizational roles judged by social control agents to be illegal, unethical or socially irresponsible” (Palmer 2008) | Individual |
| Furnham (2010); Levine (2010); Kish-Gephart et al. (2010) | • Derailment  
• Unethical Intention  
• Unethical Behavior  
• Counterproductive Work Behavior | “….derailing and derailed leaders can destroy organizations and entire countries with derailment characteristics including self-aggrandizement, recklessness and egotism” (Furnham 2010)  
“….expression of willingness to engage in unethical behavior”  
“…..any organizational member action that violates widely accepted (societal) moral norms” (Kish-Gephart et al. 2010)  
“…..any intentional behavior on the part of an organizational member viewed by the organization as contributory to its legitimate interests” (Levine 2010) | Individual / Professional Group |
| Cole et al. (2008); Felps et al. (2006); Janis (1982) | • Dysfunctional Team Behavior  
• Groupthink | “….any observable, motivated behavior by an employee or group of employees that is intended to impair team functioning” (Cole et al. 2008)  
“….mode of thinking that people engage in when they are deeply involved in a cohesive ‘in-group’, when the members’ striving for unanimity overrides their motivation to realistically appraise alternative courses of action” (Janis 1982) | Team / Group |
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<th>Author</th>
<th>Dark Side / Dysfunctional Behavior</th>
<th>Definition / Characteristics</th>
<th>Level of Analysis</th>
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<tr>
<td>Levine (2010)</td>
<td>• Counterproductive Organizational Behavior</td>
<td>“...actions that adversely affect customers, competitors, government agencies, even entire nations taken by a substantial number of organizational members, and the organization through its policies or norms that permits, intentionally overlooks or encourages such actions either explicitly or implicitly”</td>
<td>Organizational / Professional Association</td>
</tr>
<tr>
<td>Ashforth et al. (2008); Campbell et al. (2011); Kish-Gephart et al. (2010); Pinto et al. (2008)</td>
<td>• Egoistic Climate</td>
<td>“…organizational environment emphasizes self-interest and encourages decision-making based on personal instrumentality”</td>
<td>Organization / Professional Group</td>
</tr>
<tr>
<td>• Corrupt Organizational Behavior</td>
<td>“…in which a group of employees carries out corrupt behaviors on behalf of the organization”</td>
<td>Organization / Professional Group</td>
<td></td>
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<tr>
<td>• Organizational Narcissism</td>
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<tr>
<td>Van Fleet and Griffin (2006); Guerra et al. (2005); Lehann and Ramanujam (2009)</td>
<td>• Dysfunctional Organizational Culture</td>
<td>“…one that encourages and rewards mediocre individual – and group-level performance”</td>
<td>Individual / Group / Organizational</td>
</tr>
<tr>
<td>• Collective Wrongdoing</td>
<td>“…behavior perpetrated by organizational officials (i.e. directors, managers, and/or employees) in the course of fulfilling their organizational roles judged by social control agents to be illegal, unethical or socially irresponsible”</td>
<td></td>
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<tr>
<td>Campbell &amp; Göritz (2014); Lange (2008)</td>
<td>• Organizational Corruption</td>
<td>“…the pursuit of interest by one or more organizational actors through the intentional misdirection of organizational resources or perversion of organizational routines”</td>
<td>Field-Level / Institutional</td>
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<tr>
<td>• Corrupt Cultures</td>
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<tr>
<td>Misangyi et al. (2008)</td>
<td>• Institutional Corruption</td>
<td>“…misuse of a position of authority for private or personal benefit”</td>
<td>Field-Level / Institutional</td>
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<tr>
<td>Capbell et al. (2011); Morone &amp; Samanidou (2008); Haiss (2010); Tett (2009; 2010); Taleb (2010); Barth et al (2012); Stiglitz (2010); Krugman (2012) Neilsen (2003)</td>
<td>• Herding Behavior</td>
<td>“…mutual imitation leading to a convergence in action space”</td>
<td>Field-Level / Institutional</td>
</tr>
<tr>
<td>• Ideological Dispositions</td>
<td>“…social silence[s]...are crucial to supporting the story that a society is telling itself...sometimes [silences] are maintained through overt strategies devised by members of a social group and can consciously choose to hide facts, as part of a plot”</td>
<td></td>
<td></td>
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<tr>
<td>• Institutional Sanctions / Social Silences</td>
<td></td>
<td></td>
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<tr>
<td>• Meta-organizational Narcissism</td>
<td></td>
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<tr>
<td>• Corrupt Networks</td>
<td>“…systemic sub-systems of corruption that extend beyond geographic regions and socio-political and political-economic systems”</td>
<td>Field-Level / Institutional</td>
<td></td>
</tr>
<tr>
<td>• Cronyism</td>
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2.3 Contextualizing Dark Side Behavior – the Great Recession

Contemporary finance theories posit that the decision-making agent is rational. Rationality in the behavioral economics literature suggest that when agents receive information, they compare against what is known, update that information if required and make decisions consistent with expected utility theory (Roubini and Mihm 2011; Shiller 2005; Simon 1997; Tversky and Kahneman 1986, 1992). However, what is now evident is that these behaviors were inconsistent with the rational perspective and reflected a fundamental failure in cognitive processing. Patrick Honahan (2008: 3) Governor of the Irish Central Bank suggested that in an effort to compete in the marketplace, loan to value (LTV) ratios were increased, lending standards and stress testing of loans were relaxed and the reckless lending practices became the *modus operandi de jour*. Honahan (2010a) described Irish bank lending practices as neither safe nor sound and constituted socially harmful risk-taking behavior. This supported the position that organizations which emphasized risk-taking and advantage taking behavior do so even at the risk of stability and growth (Berson et al. 2008). This dispositional orientation may become a cultural value resulting in situations where excessive risk-taking overrides rational decision-making behavior (Barth et al. 2012; Stein 2011; Stiglitz 2010; Tett 2010b). The question however, is whether this excessive risk-taking is conscious or unconscious. That is, whether the behavior is the result of an unconscious ideological belief or is the outcome of a well-constructed cognitive process.

Government commissioned reports exploring the causes of the financial crisis in Ireland, UK and US have fallen broadly in line with the mainstream academic findings that the financial crisis was the result of: *regulatory failures* (Barth et al. 2012; Honohan 2010b; Shleifer and Vishny 2010; Stiglitz 2010; Treasury Select Committee 2009a), *poor macro-prudential policies* (Davies 2010; Ferguson and Johnson 2009; Guillen and Suarez 2010; Haldane 2010; IMF 2009), *excess liquidity, insufficient capital buffers and high-risk lending strategies*
(Carruthers 2010; Collier 2011; Davis 2009; Gaffney 2009; Pozner et al. 2010), *management and leadership failures* (Board 2010; Boddy 2011; De Cock et al. 2011; Fahlenbrach and Stulz 2011; FSA. 2011; Haiss 2010; Kling 2010; McLean and Nocera 2010), and *intellectual and ideological failures* (Gärling et al. 2009; Haldane 2011; Krugman 2009, 2012; Roubini and Mihm 2011; Stacey 2010; Tett 2010a; Wang et al. 2011; Whittle and Mueller 2012). Consistent themes however, that have emerged throughout the multi-perspective [regulatory, structural, people / organization / institution] analysis exploring the root causes of the financial crisis have been intellectual and knowledge failures and widespread overconfidence within the field of banking and finance (e.g. Nyberg 2011; Treasury Select Committee 2009a, b; US Senate Report 2010).

Within this literature then there is a tacit understanding that cognitive and behavioral actions may have warranted a more incisive critique with a number of scholars attempting to address these central themes. Munir (2011: 115) for example, raised some important questions aimed at illuminating the institutional variables that may have had a bearing on why so many individuals and financial institutions engaged in similar dark side behaviors. He posited that the financial crisis reflected an interesting narrative that highlighted “shifting logics – from one that placed markets within society to a view that understands society in terms of markets”. Similarly, Tett (2009c: 6-7; Tett 2010b) joined in this quasi-anthropological narrative in understanding the behavior of banking professionals and applied metaphors such as “icebergs” to describe the opaque nature of the debt, credit and derivatives markets. This opacity lent itself to obscuring the dangers that hid behind structured finance – those that professed to understand the complexity of these products could in essence frame the narrative of the public. Tett’s utilization of Bourdieu’s (1977) concept of *silences* illustrated how banking professionals had become the new social elites (Scott 2008b; Zald and Lounsbury 2010) that controlled the cognitive map of the public when it came to understanding finance.
In her view, contrarians would have had difficulty in challenging the established and legitimate narrative, a point supported by Honohan (2010c: 16), the US Senate public hearings (2010: 201) and the FCIC (2011: 142).

Peter Nyberg’s (2011: iv) report on the Irish banking crisis noted that “pervasive pressure for consensus and a willingness to adopt policies and practices that later proved unsound” had contributed to a convergence of risk-taking dispositions and decision-making practices within Irish banking institutions. It was this pervasive pressure that prompted Nyberg’s Groupthink and herding hypothesis in explaining the behavior in Irish banking institutions. Similarly, Regling and Watson’s (2010: 6) preliminary report on the Irish banking crisis argued that “internal procedures were overridden, sometimes systematically” and the tendency to engage in risky behavior became legitimized within a “socio-political context” that would have required courage to challenge this destabilizing behavior.

While both Regling and Watson (2010) and Nyberg (2011) highlight dark side behavioral issues that extended beyond banking institutions, there has been surprisingly limited analysis of why those behaviors became normalized. Nevertheless, Nyberg (2011) cited Groupthink as synonymous with the extremist collective behavior of many institutional actors in the Irish context. Although Janis’ (1982) concept of Groupthink does provide some evidence to support Nyberg’s notion of collective cognitive capture, the concept of Groupthink reflects a ‘group’ or top management team’ proclivity to engage in similar cognitive and decision-making processes and fails to address collective cognition on a much larger scale. Groupthink reflects a “mode of thinking that people engage in when they are deeply involved in a cohesive ‘in-group’, when the members’ striving for unanimity overrides their motivation to realistically appraise alternative courses of action” (Janis 1982: 9). It is therefore, situated at group-level and although some of the symptoms of Groupthink such as: a) an illusion of invulnerability, b) an illusion of morality, c) rationalization, d) stereotyping, e) self-
censorship, f) an illusion of unanimity, g) contrarian condemnation, and h) reliance on cognitive gatekeepers to maintain the status quo are similar to those of narcissistic characteristics – they do not translate to higher levels of abstraction. If however, we consider Furnham’s (2011: 121) argument that norms and values in the workplace may have the capacity to condone and promote “narcissism” within the organization’s culture then culture becomes that organizational dimension in which cognitive similarities can evolve. If, as Furnham (2011) argues organizations may have selected, sought and praised those with self-esteem bordering on narcissistic personality disorder, then perhaps this HR interventions may have had played a central role in the financial crisis. If embedded narcissism can become a “property” of an organizations “culture as well as the individuals” it is plausible that rather than being on the periphery of the financial crisis HR interventions played a more significant role in embedding dark side behaviors.

The FCIC established that socio-political dimensions exacerbated the impact of the US financial crisis. In their report, the FCIC observed that irresponsible lending, predatory and fraudulent practices and the unwillingness of regulators to address these “pervasive” behaviors was made more difficult as a result of “turf wars” between various regulatory agencies tasked with regulating banking institutions (FCIC 2011: xxiii). In what might be considered regulatory capture, the Senate Hearings found that the Office of Thrift Supervision [OTS] had taken a “protective” stance over Washington Mutual [WaMu] and not only defended its financial position but actively sought to limit the Federal Deposit Insurance Corporation’s [FDIC] examiner’s access to WaMu despite strong evidence of a deteriorating financial position. The Senate investigation may also have uncovered evidence of how some banking institutions engaged in manipulative tactics (US Senate Report 2010: 197) that not only captured institutions tasked with regulating behavior but may have uncovered how institutions embraced the organizational identity of those being regulated. Whilst, regulatory
capture is typically associated with information asymmetries, and incentives or revolving doors, the financial crisis was somewhat different in that the asymmetries reflected intellectual and knowledge [cognitive] rather than information (Honohan 2010b: 9; Treasury Select Committee 2010: Q2354). Both intellectual and knowledge asymmetries depict a higher level of understanding and ability [cognitive] whereas information asymmetries reflect one party having access to more information with which to make informed decisions than another party.

While these cognitive and behavioral issues reflect power asymmetries symptomatic of regulatory tensions (Oliver 1991: 159) they also illustrate the failure of people and organizational development policies. Indeed, they point to a range of HR failures that include recruitment & selection, management & leadership development, organizational & culture development, rewards & incentives, career development and most importantly the development and management of ethics and long-term organizational sustainability.

The financial crisis has adversely impacted societies, organizations and individuals. However, what is most revealing about the financial crisis concerns the way in which organizations have behaved and the consequences of such behavior for the stability of the world economy (Barth et al. 2006; Lehman and Ramanujam 2009). Numerous examples of inappropriate individual behavior are highlighted in many of the official reports and indicate that these behaviors did not develop as a short-term response to market pressures – these behaviors developed over an extended period of time in which identities, professional affiliations and membership of elite groups grew organically (Goldman 2009; Honohan 2010b). Human resources [people] are both capable of conferring sustained competitive advantage in organizations but are also capable of counterproductive or dark side behaviors (Munir 2011; Stein 2011) that can potentially damage the organization, and society in the
long-run. The various financial crisis inquiry commissions have illuminated failures at the individual, organizational and institutional level.

In the context of the financial crisis, the most pervasive dark side behaviors evident at the institutional level included: banks and financial institutions misleading or lying to regulatory authorities concerning their risk exposure and financial stability (see FCIC Report 2011; FSA. 2011; Honohan 2010b; House of Commons Treasury Committee 2009; Nyberg 2011; Regling and Watson 2010; Treasury Select Committee 2009a, 2012; US Senate Report 2010); engaging in reckless lending practices and a failure to follow lending guidelines agreed with banking regulatory authorities (Blanchard et al. 2009); unethical practices by senior executives to cover up non-compliant practices and major liquidity problems (Hannon 2010) and the belief that risk was deemed irrelevant as a result of the infallibility of complex mathematical models (Carruthers 2010; Krugman 2012; Mattingly and Kopecki 2012; Pozner et al. 2010; Reinhart and Rogoff 2009; Roubini and Mihm 2011). This body of literature does not suggest a lack of awareness was at the core of the excessive risk-taking and poor decision-making behavior, it argues quite the opposite. It suggest that those in decision-making positions were aware of the risks but because their feeling of belonging to the organization or emotional connection to their profession that they had a heightened sense of pride in what they were doing that blind sighted them to the potential for a negative outcome as a result of their dark side behaviors.

Peter Nyberg, the Finnish Economist tasked with heading up the Commission of Investigation into Ireland’s Banking Inquiry noted that “professional pride” (Nyberg 2011: 31) rather than purely incentives-based bonuses may have explained why Irish banking professionals engaged in the excessive risk-taking behavior. Similarly, Adair Turner Chairman of the UK FSA argued that the greed, pride and out-of-control locker room cultures evident in many banking institutions in the UK represented a “fundamental issue
rooted in human nature and institutional cultures” (Q2210 Treasury Select Committee 2010: 286). Excessive risk-taking and poor decision-making [judgment] behavior occurred in an environment “rich in over-confidence, over-optimism and the stifling of contrary opinion” (Treasury Select Committee 2009a: 3) indicating that this behavior may have been influenced by affect or feelings [emotions]. Support for this argument is maintained by the fact that emotions such as pride, hubris, anger, and sense of invulnerability have been cited in the financial crisis literature (e.g. Rötheli 2010; Stein 2011, 2013; Treasury Select Committee 2013; Whittle and Mueller 2012) thus indicate that the affective [emotional] state of the actors may have been influenced the cognitive appraisals of the situation leading to both excessive risk-taking [as a result of heightened pride and sense of invulnerability] and poor decision-making [as a result of perception of total control of the environment].

2.4 Cognition, Affect & Decision-Making [Judgment]

Arguably, the financial crisis reflects more than just a failure of regulatory enforcement, it reflects failures in judgment predicated on hubris induced risk-taking at an institutional level (Munir 2011; Power 2009). Consequently, experience of emotions can have a direct effect on an individuals’ cognitive abilities (Isen and Means 1983; Lerner and Keltner 2000; Lerner and Tiedens 2006; Smith and Ellsworth 1985) influencing how risk is perceived (Johnson and Tversky 1983) and judgments are reached (Kuhnen and Knutson 2011). When faced with decision-making [judgments] under conditions of uncertainty [risk] individuals engage in an appraisal process. Typically, appraisals constitute cognitive prerequisites or contents of an emotion (Kuppens et al. 2003; Lerner and Keltner 2000) whereas action tendencies are more an action of emotional states (Frijda et al. 1989). The financial crisis illuminates the challenges faced by individuals, their organizations and institutions when faced with decision-making under uncertain conditions. Psychologists and behavioral economists who study risk-taking and decision-making under conditions of uncertainty typically pursue a
consequentialist approach. That is, individuals will make decisions based on an assessment of the possible consequences of that choice (e.g. Kahneman 2003a; Kahneman 2003b; Kahneman and Tversky 1979; Kuhnen and Knutson 2011; Shiller 2005). It is generally accepted that judgments about risk rarely occur in an emotion neutral environment (Johnson and Tversky 1983) therefore, information about risk and its potential for negative outcomes can often evoke discrete emotions such as *fear, anxiety and anger*. Although emotions are experienced by the individual, they can also transcend the individual level and become contagious at the collective level (Barsade 2002) and manifest as various types of herding behavior (Cipriani and Guarino 2009; Drehmann et al. 2005; Haiss 2010; Raafat et al. 2009; Villatoro 2009). As a result of contagion, these discrete emotions have the capacity to influence financial and economic decision-making behavior of not just an ideologically similar group (De Bondt et al. 2013; Shiller 2005) but actors across an institutional field, that includes the professions (Scott 2008b) and state agencies (Lehman and Ramanujam 2009).

Organizations are “affectively laden environments” (Amabile et al. 2005: 367) with internal and external events having the potential to invoke a wide range of emotional responses (Thiel et al. 2012) - both positive and negative. Emotions can influence information processes with individuals who experience negative affective states pursuing a more systematic approach (De Bondt et al. 2013; Gneezy and Potters 1997), while those who experience positive affective states tending to process information in a more heuristically (Forgas 1995; Shiller 2005) or strategic manner (Isen and Means 1983). The literature exploring the impact of emotions on cognitive processing is vast, and although significant research has focused on experiments run under controlled laboratory conditions to explore how individuals approach decision-making under risk our understanding of how it operates in the real world is less well understood. That said there have been a number of important appraisal studies that have
progressed our understanding of emotions and their impact on decision-making under uncertainty.

Appraisal theorists have explored the role of cognition, appraisal and emotions that go far beyond purely valence-based [positive/negative] research and it is this avenue of scholarly debate that offers great potential in understanding how risk was perceived by many in the banking and finance industry. Lerner and Keltner (2000, 2001) for example, applied an appraisal-tendency framework to examine emotion based differences in decision-making involving risk and judgment and found that fear predicted higher risk assessments with anger yet their research found the opposite - lower risk assessments. Despite that both fear and anger are high on negative valence, they produced significantly different risk assessments. Interestingly, Lerner and Keltner (2001) found that specific emotions consistently shaped how individual perceived and constructed their social environment perhaps indicating the role professional affiliation, membership or identity played in their risk appraisals. Mackie et al. (2000) on the other hand, progressed the appraisal-based research beyond purely exploring the impact of emotions on the individual to explore the salience of social identity, again this research highlights the impact of environmental factors in the appraisal process. Their research was consistent with much of the experimental research that elite actors tended to discriminate against those in out-groups as a result of both knowledge and intellectual asymmetries. More importantly, Mackie et al. (2000) found that appraisals of in-groups dominance often resulted in anger toward contrarian out-groups. This is an important observation and has resonance when explored in the context of the financial crisis.

Evidence from the financial crisis public inquiries has highlighted how discrete emotions such as anger, fear and pride resulted in members of the finance profession sublimating through proxy agents, behavior that would otherwise be considered socially unacceptable (see RTE 2007; US Senate hearings 2011b: 61). More recently Kuhnen and Knutson (2011) found
that affect matters regardless of whether it was as the result of exogenous or endogenous influences and concluded that positive affect results in individuals being more risk-seeking and more confident in beliefs. They also argued that learning was impacted by the desire to maintain a positive affective state [by reducing negative affect] thereby impacting on their ability to process new information that is in direct conflict with a current course of action. There are some inconsistencies in the research however, Mittal and Ross Jr. (1998) for example, found that a positive mood resulted in less framing effects than negative mood individual – concluding that positive mood individuals exhibit high cognitive function when processing information than those in a negative mood. This seems to be at odds with how many banking institutions viewed risk under conditions of uncertainty. There is therefore a necessity to explore the dimensions of the cognitive appraisal process in understanding the behavior central to the financial crisis.

2.4.1 Cognitive Appraisal Theories of Emotion

Cognitive appraisal theories suggest that a range of cognitive dimensions differentiates an emotional experience from its emotions effects (Lerner and Tiedens 2006). Cognitive appraisal theories offer a theoretical perspective that can be applied to explore why individuals in multiple banking institutions behaved the way they did but also offers insight into the negative emotions expressed by many front-line workers of banking institutions in recent years. Cognitive appraisal theories (Krehbiel and Cropanzano 2000; Marescaux et al. 2013; Nerb and Spada 2001) suggests that emotions are inextricably associated with judgments about positive/negative outcomes (Roseman et al. 1990). According to appraisal-based theories, emotions are bi-products of both primary and secondary [cognitive] appraisals (Krehbiel and Cropanzano 2000; Lerner and Keltner 2000, 2001) and suggest that individuals appraise an outcome based on two main criteria: valence [positive vs. negative] and agency [outcome resultant from self or others]. Lerner and Keltner’s (2000) research however,
provides more granularity in respect of how cognitive appraisal draw on a range of emotions, not just valence and agency that more usefully reflects the impact of emotions and their effects. In short, cognitive appraisals elicit an emotional response relative to the attainment of a goal or objective. Positive emotions such as: pride, joy and happiness have been linked to affective organizational commitment (Meyer et al. 2002) increasing the likelihood that individuals who experience positive emotions will find it difficult to differentiate harmful organizational behavior from more benign organizational behavior. Similarly, negative emotions such as anger, fear and anxiety have the potential to result in both myopic dispositions (Lerner and Keltner 2001; Thaler et al. 1997) and risk-aversion / risk-seeking behavior (Finucane et al. 2000; Isen and Means 1983; Thiel et al. 2012; Tiedens and Linton 2001).

Roseman (1985, 1990) and Smith and Ellsworth (1985) proposed a number of cognitive appraisal dimensions to illuminate the impact of different emotional states on judgment which may prove useful in the context of the financial crisis. Smith and Ellsworth (1985: 817) proposed eight different cognitive appraisal dimensions they argued influenced judgment: pleasantness [motivational state / situational state feeling of pleasure (high) vs. displeasure (low)], anticipated effort [degree to which physical or mental exertion seems to be needed (high) vs. not needed (low)], attentional activity [degree to which something draws one’s attention (high) vs. repels one’s attention (low)], control agency [degree to which events are as a result of one’s own control (high) vs. situational agency where ‘other’ is deemed in control (low)], certainty [degree to which events are understood and predictable (high) vs. unpredictable and incomprehensible (low)], goal-path obstacle [degree to which something in the way of achieving goal can be removed (high) vs. inability to achieve goal due to external constraint (low)], legitimacy [degree to which an outcome is deserved (high)
vs. undeserved (low)], and responsibility [degree to which someone/something other than oneself is (high) vs. oneself (low) is responsible].

Similarly, Roseman 1979 (cited in Roseman et al. 1990: 899) argued that five distinct appraisals act to influence emotions: motivational state [degree to which an individual perceives the situation to be adverse (likely to result in a punishment) or appetitive (reward is likely)], situational state [degree to which the motivational state is present, i.e. – is there a likelihood of a reward/punishment, appraising the situation as motive-consistent will produce a positive emotion whereas, appraising the situation as motive-inconsistent will result in a negative emotion], probability [degree to which the outcome is likely to be certain or uncertain], legitimacy [degree to which a positive/negative outcome is deserved in a given situation] and agency [degree to which the outcome is caused by certain other’s factors or personal behavior]. Both Smith and Ellsworth (1985) and Roseman (1979) provide exceptionally useful cognitive appraisal frameworks that can be utilized to explore risk-taking and decision-making under conditions of uncertainty. Together, these appraisal form the basis of an emotional state that can influence cognition and affect behavior intentions (Kepplinger et al. 2012).

One of the consistent themes to emerge from extant literature since the emergence of the financial crisis is centered on why professionals in banking institutions failed to see the potential issues associated with excessive risk-taking behavior and complexity of the securitized products market (Treasury Select Committee 2009a; US Senate Report 2010). Despite our understanding of many of the failings of managers and leaders in US, UK, and Irish banking institutions, a number of key unanswered questions relates to why individuals in so many banking institutions exhibited similar behaviors, emotions, poor judgments and unquestioned commitment to their organizations. Despite indications that their behavior was likely to be damaging to the self and their organizations it became normalized, socialized and
legitimized. The focus on incentives and their influence on extreme behaviors does not fully address the affective commitment many individuals in banking institutions displayed, even after they had left those institutions (see Sparks statement US Senate hearings 2010: 12). Lerner and Keltner (2000) however, offer some insight into why many members of the banking profession may have behaved the same way, viewed risk is the same manner and appraised situational variables in very similar ways. Lerner and Keltner (2000: 477) argued that appraisal tendencies have the capacity to frame cognitive processes associated with risk-perception and it is through this cognitive process that emotions can influence the perception of a risky situation and subsequent behavior. There is particular utility in adapting Lerner and Keltner’s (2000) appraisal tendencies approach as the focus of this research is to explore how and why members of the banking and finance profession engaged in similar perceptions of risk leading to poor decision making. Nyberg (2011: 21) noted that in the Irish context, “…professional pride and a desire to catch up with or stay ahead of the competition (i.e. playing to win)” was as important if not more important that the incentives to engage in the behavior. Within the Irish and UK banks, there was ostensibly a collective emotional state shared by many actors that may have been a factor in the behavior that has up to this point been attributed to incentivized risk-taking – pride and anger behavioral intentions.

Roseman’s (1990, 1996) appraisals also has the potential to play an important role in unlocking some of the answers in relation to how human resource interventions may have had the capacity to not only to help sustain organizational results but in the process, may also have led to unintended consequence of invoking extreme behaviors [vis-à-vis positive organizational commitment] in individuals through their pursuit of, and alignment with those same organizational goals. Figure 2.1 offers a framework that illuminates how areas of HR responsibility might inadvertently have invoked very positive emotions that resulted in the

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3 Appraisal tendencies reflect goal-directed processes through which emotions exert effects on judgement and choice until the emotion-eliciting problem is resolved (Lerner and Keltner (2000: 447)
extreme behaviors witnessed in banking institutions. More crucially, it may also help illuminate the frustration and anxiety experienced by regulators and staff in ratings agencies up to and during the financial crisis.

In the model 2.1, the degree to which future events appear predictable [certainty] may invoke a positive emotion [pride] resulting in an appraisal tendency that views the positive event brought about by self and reinforced by professional affiliation [intellectual asymmetries]. This appraisal tendency can give rise to a feeling of omnipotence and omniscience [narcissistic dark side behaviors] becoming legitimized through HR Interventions [opulent incentives policies]. On the other hand, the degree to which future events appear unpredictable [uncertainty] may invoke a negative emotion [anger] and may perceive negative events as predictable [under one’s control] or brought about by others [out of one’s control]. This may lead to an appraisal tendency that reinforces behavioral intent through ideological orientation [when events are perceived as predictable] or may rely on legitimized social silences [situational events outside of one’s control] to legitimize risk perception resulting in dark side behaviors such as triumphant contempt, attributional egotism and denial becoming normalized within the profession.

The model 2.1 provides some insight into the social conditions that may lead to the legitimation of dark side behaviors that are more the result of an emotional connection and identity affiliation with an organization and/or membership of a professional group than the outcome of short-term bonuses and incentives. Indeed, the appetite banking institutions had for extremely risky positions and the potential for significantly negative impact as a result of excessive risk-taking behavior requires a greater understanding of what risk actually meant to those institutions. Arguably, risk-taking and decision-making rarely exist in a vacuum and is influenced by multiple factors, key among those is how risk is perceived and to what degree judgments are reflective of individual dispositions and social factors.
Figure 2.1: Cognitive Appraisals & Dark Side Outcomes

Cognitive Appraisal Dimensions
- Certainty
- Agency
- Path-Goal Obstacle
- Legitimacy
- Attentional Activity
- Pleasantness
- Responsibility
- Anticipated Effort

Negative Emotion
- Anger
- Fear / Frustration
- Shame / Guilt

Institutional Legitimacy
- Ideological Orientation
- Legitimized Social Silences

Professional Affiliation
- Knowledge Asymmetries
- Intellectual Asymmetries

Collective Adoption of Dark Side Behaviours
- OmnipoAce/Omniscience
- Triumphant Contempt
- AttributioAce Egocentrism
- Denial
- Racionalization

Positive Emotion
- Pride
- Euphoria / Happiness
- Hope / Joy

Contextual Factors [HR Interventions]
- Unrealistic Goals
- Reputational Damage
- Market Retention Myopia

Organizational Leadership Capability
- Debriefed Leadership
- Regulatory/Cognitive Capture
- Deception & Capacity
- Intellectual/Ineign Failure

Culture & Climate
- Resistance to Change
- Shareholder Primacy
- Law Governance/Agency Control
- Cepulent Incentives Policies

Cognitive Appraisal
Emotions
Individual-Collective Appraisal Tendency Bridge
Propensity for Organizational & Institutional Dark Side Behaviors
2.5 Behavioral Decisions Theory & Risk-Taking Behavior

The behavioral decisions literature is vast, contested and heavily theory and laboratory focused accordingly, an exhaustive synthesis of this literature is beyond the scope of this chapter. Nevertheless, the literature does provide consensus in terms of defining risk as the probability of a future outcome based on decision-making calculations framed by expected utility / prospect theories taking into consideration subjective values (Kahneman 2003b; Kahneman and Tversky 1979; March and Simon 1993; March and Shapira 1987; McNamara and Bromley 1997; Thaler and Johnson 1990; Tversky and Kahneman 1986; Von Neumann 1953). Decision-making takes place within a web of socially constructed and interactively complex organization-institution interactions (McNamara and Bromiley 1997; Scott 2008a) and rarely if ever, are decisions especially risky decisions made in a ceteris paribus manner.

2.5.1 Risk Perception

Risk perception is a subjective construct characterized by how an event is perceived (Holmes et al. 2011; Rottenstreich and Tversky 1997) and reflects a cognitive assessment of a situation often influenced by bias. March and Shapira’s (1987: 1411) contention that individuals have a general insensitivity to risk because they do not use “precise probability estimates” when calculating risks seems inconsistent with technological advances within the field of modern banking and finance. Cipriani and Guarino (2009), Krugman (2009) and Tett (2010a) for example, argue that probability estimates are based on complex mathematical models and well-accepted theories of finance and economics, so rather than the absence of any in-depth cognitive assessment of risk as March and Shapira contend - it is the overreliance on theoretical models and the presence of considerable knowledge and cognitive ability that can unduly influence risk-taking and risk-seeking behavior at the collective level [organizational and institutional].
Ideologies play a dominant role in organizational life (Stacey 2010) which not only impacts on decision-making but can also legitimize resistance to divergent perspectives. Ideologies are systems of political ideas that promote the interests of “certain actor classes” at particular moments in time (Bresser-Pereira 2010: 518) and reflect the “values, norms, and standards that exist independently of a single person and that are shared by a group as part of its mutual culture” (Narvaez et al. 1999: 478). Ideological dispositions such as for example: market efficiency and institutional self-regulation may unduly influence the ability of organizations and regulators to evaluate downside risks associated with business and economic growth strategies. Consequently, ideological dispositions have the capacity to frame risk-taking and risk-seeking behavior and pose a genuine risk to organizations and in extreme cases - institutional stability.

2.5.2 Risk Propensity

Risk propensity or a general “behavioral tendency to take or avoid risk in specific domains” (Bresser-Pereira 2010: 518) reflects individuals’ or organizations’ proclivity to pursue risk-seeking or risk-avoidance strategies in-line with the institutional logics of their field and/or profession (Gärling et al. 2009: 4). Another factor than can influence risky behavior is group composition (Peterson et al. 1998; Turner and Pratkanis 1998); this has been advanced as an influencer of risky behavior at the organizational level (Meyer and Jepperson 2000: 105; Scott 2008b: 222) with some evidence that group composition, professional affiliation and social identity also influence risky behavior (Sitkin and Pablo 1992: 13). The group / professional affiliation approach to risk-taking and decision-making behavior is evident in much of the herding literature (e.g. Beenen and Pinto 2009a; Gärling et al. 2009; Haiss 2010; Raafat et al. 2009; Roszkowski and Davey 2010) that has emerged since the onset of the financial crisis in 2008. The herding behavior argument has witnessed somewhat of a resurgence since the initial impacts of the financial crisis; however, it is the article by Haiss
(2010) that has provided what is perhaps the most compelling argument to consider herding as a possible cause of the risk-taking and decision-making failures in many banking institutions across the globe Haiss (2010) suggested that risk, or the propensity to engage in excessively risky strategies among banking institutions was driven by both rational and behavioral herding. Whilst rational herding does reflect factors identified in the various banking inquiry reports such as: information cascades, reputation, and compensation it is the behavioral factors that are most pertinent. While rational or “utility maximizing” (Haiss 2010: 37) herding may help explain the risk propensity of certain groups when faced with incomplete information or loss in investor confidence [reputation] due to not performing as well as peers, it is the institutional or sociological dimensions that offer the most valuable avenue of exploration. The success of a other has a direct impact on our own emotions, our sense of self and ultimately our ego (Taleb 2010). How we perceive someone else’s success call into question our own abilities, we feel envious of others and rather than anchor that emotion in a rational thought process that a other’s success was due to their being lucky and our being unlucky “our emotions find it difficult to benefit from such rationalization of failure, and the envy of others’ successes continues to haunt us” (Taleb 2004 cited in Shiller 2005: 65).

Proponents of a laissez-faire doctrine (Greenspan 2010) often advocated that financial crises cannot be identified before they occur ;however, this argument is fundamentally flawed when ideological dispositions have the capacity to underscore contextual variables (U.S. House of Representatives 2008: 17). Weick and Roberts (1993) concept of the collective mind illuminates how organizational members can act in a tightly coupled way to manage highly interactive and risky environments. Systems are said to be tightly coupled when groups or organizations think or act collectively, when delays are not possible and the environment does not allow for redundancy (Danneels 2003: 560; Guillen and Suarez 2010: 262). Within
this environment, previous organizational successes can legitimize excess risk-taking and frame potential future outcomes in a more positive light than would ordinarily be expected. Patterns will resemble previous successes and insufficient consideration will be given to the probability for alternative scenarios - this propensity to assume patterns will repeat or result in a *representativeness heuristic* (Kahneman 2003b; Kahneman and Tversky 1979; Shiller 2005) and over stimulate confidence levels among members of the same group, professional association or those that share a homogenous social identity. Framing of decisions can therefore influence both risk perception and propensity (Kahneman and Tversky 1979; Sitkin and Weingart 1995). This may be exacerbated if (i) group affiliation is perceived as prestigious and socially legitimate (March and Simon 1993: 87) and (ii) multiple institutions embrace similar ideological values (Gärling et al. 2009; Munir 2011; Sitkin and Weingart 1995). Within this environment the construction and institutionalization of an ideology is legitimated by the “powerful doxic effect” (Thompson 2008: 77) prescribed to those viewed as knowledgeable or intellectual (Scott 2008b). This has the potential to create intellectual asymmetries between those perceived as intellectually astute [in-group] and those considered less intellectually astute [out-group]. The impact of this asymmetry can manifest as a dominant social discourse in which those considered to be intellectually astute can control the cognitive map of society (Tett 2009c).

### 2.5.3 Ideological Contribution to Dark Side Behaviors

If we premise the notion that ideology informs key actors’ cognitive processes, this might illuminate why some institutional actors such as regulators might align with those of banking institutions to create a “social elite” (Barth et al. 2012: 89-90; March and Simon 1993: 98). Within this conceptualization, the legitimacy of risk-taking and decision-making behavior is predicated on both educational and professional background (Stacey 2010: 45) as well as ideological homogeneity resulting in identical counterfactual analyses and discourse (Taleb
This can cause cognitive abilities to become myopic as elite institutional actors engage in retrospective plausibility: discounting the rarity or conceivable of an event due to “reasoning correctly from erroneous premises” (Taleb 2010: 283). The overreliance on technology and economic/financial theories may also result in quantitative models becoming “legitimized and glamorized” leading to institutional legitimacy ascribed to their infallibility (Munir 2011: 116). Taleb (2010: 277-278) remarked that the “contagion” rather than the “validity” of social science theories such as efficient market hypothesis [EMH] and modern portfolio theory [MPT] enabled these theories to gain traction, acceptance and legitimacy.

Ideological beliefs and an overreliance on mathematical legitimacy have the capacity to minimize downside risk, discount the potential for extreme outcomes and create a prejudiced risk-seeking disposition among group affiliates. Taleb (2010: 137) posited that individuals tend to tunnel not because of the herd but because future predictions are based on historical evidence making decisions “business as usual – Black Swan free”. The inability to accept the veracity of warning signs is compounded by (i) perceived unlimited knowledge and the “normative controls enshrined in the role systems” and identities associated with membership in a profession (Scott 2008b: 225) and (ii) previous positive outcomes of risk-seeking (Thaler and Johnson 1990: 659) or position-taking behavior (Emirbayer and Johnson 2008). The overvaluation of perceived factual information heightens the risk of elite thinkers clustering. The legitimacy of both statistical modeling and professional/educational backgrounds can form cognitive and behavioral anchors to which many institutional actors can retreat when faced with uncertainty (Ballinger and Rockmann 2010; Rottenstreich and Tversky 1997). More crucially, these anchors can lead to elite thinkers underestimating volatility which may adversely influence risk perception and propensity (Goldstein and Taleb 2007). Ultimately, it is these anchors that create a foundation for dark side behaviors linked to high levels of cognitive ability and intellectual capability.
2.6 Narcissism

Risk-taking, decision-making and irrationality denote cognitive and behavioral aspects of the crisis that have largely been overlooked in the literature with some notable exceptions (see Davies 2010; Haiss 2010; Tett 2010a). To that end, the concept of organizational narcissism is uniquely positioned to extend the conversation and address the questions of why many banking institutions at the center of the financial crisis engaged in behaviors that might have appeared self and organizationally destructive.

2.6.1 Narcissism Defined

Although Lasch 1978 (cited in Brown 1997: 645) argued the difficulty with defining narcissism was due in part to the inclination to deem narcissism as “everything selfish and disagreeable” – there is voluminous research that explores the concept of narcissism from both positive and negative perspectives. Narcissism, from a subclinical perspective is defined in the Diagnostics and Statistics Manual of Mental Disorders (DSV-IV) as a “pervasive pattern of grandiosity, need for admiration, and lack of empathy that begins by early adulthood and is present in a variety of contexts” (American Psychiatric Association 2000: 714) that include:

- A grandiose sense of self-importance (e.g. exaggerates achievements and talents, expects to be recognized as superior without commensurate achievement)
- Is preoccupied with fantasies of unlimited success, power, brilliance, beauty, or ideal love
- Believes that he or she is “special” and unique and can only be understood by, or should associate with, other special or high-status people (or institutions)
- Requires excessive admiration
- Has a sense of entitlement (i.e. unreasonable expectations of especially favorable treatment or automatic compliance with his or her expectations)
- Is interpersonally exploitative (i.e. takes advantage of others to achieve his or her own ends)
- Lacks empathy: is unwilling to recognize or identify with the feelings and needs of others
- Is often envious of others or believes that others are envious of him or her
- Shows arrogant, haughty behaviors or attitudes

In short, narcissism is concerned with a ‘tripology’ of dimensions: the self, interpersonal engagement, and self-regulatory behaviors.

Extant management and organization studies literature has explored the concept of narcissism from multiple perspectives, for example management and leadership narcissism (Boddy 2011; Bollaert and Petit 2010; Chatterjee and Hambrick 2007, 2011; Conger 1990; Dong et al. 2012; Furnham 2010; Goldman 2006; Gustafson and Ritzer 1995; Jakobwitz and Egan 2006; Kets de Vries 1991; Kets de Vries 2006; Paulhus and Williams 2002; Resick et al. 2009; Rosenthal and Pittinsky 2006; Stein 2007, 2013) ‘dark triad’ of personality traits (Goldman 2006; Hodson et al. 2009; Jakobwitz and Egan 2006; O'Boyle Jr et al. 2012; Padilla et al. 2007b; Paulhus and Williams 2002); as well as research probing the links between narcissism and organizational failure (Aasland et al. 2010; Andreassen 2012; Brennan and Conroy 2013; Clements and Washbush 1999; De Hoogh and Den Hartog 2008; de Vries and Miller 1985; Einarsen et al. 2007; Foster and Campbell 2007; Hannah et al. 2009; Harris 2010; Kets de Vries 2006; Lewellyn and Muller-Kahle 2012; Petit and Bollaert 2012; Pullen and Rhodes 2008; Whittle and Mueller 2012; Zettler and Solga 2013; Zona et al. 2012). Whilst there is has been considerable focus given to exploring the concept of narcissism from an individual perspective [e.g. management and leadership], the organizational and institutional understanding of narcissism remains less well understood. Moreover, with the exception of Ganesh (2003) and Stein (2003, 2011) most organizational-level research is focused on developing theoretical frameworks with relatively little empirical work exploring the topic. Given that organizational citizenship behavior [OCB], counterproductive work behavior [CWB], decision-making, identity and ethics are all
impacted and influenced by the social environment, it stands to reasons that narcissistic behaviors have the potential to become socialized and institutionalized within and beyond the organizational boundary (e.g. Judge et al. 2009; Judge et al. 2006; McCabe 2014; Penney and Spector 2002; Vaughan 1999). Understanding how this happens is critically important in the context of the financial crisis.

2.6.2 Organizational Narcissism

The uncertainty about how to apply a psychoanalytic concept to higher levels of abstraction without reification reflects the reluctance of scholars to attempt to operationalize organizational narcissism. This has resulted in limited research on the topic. In dealing with this issue of reification, Brown (1997: 649) argued that scholars can apply one of two strategies: they could either a) consider narcissism as metaphor for understanding collective behavior or b) define narcissism cognitively as residing in the social identities of their participants. Given that the financial crisis reflects a collect failure among a professional class, the second approach identified by Brown would seem appropriate.

Narcissism is associated with the regulation of self-esteem and protection of identity and in extreme cases this can lead to dark side behaviors contributing to organizational failure and negative societal impact (Brown 1997; Campbell et al. 2011; Hatch and Schultz 2002; Vaughan 1990; Whittle and Mueller 2012). Brown (1997: 649) cogently argued that “collective entities, in the form of groups and organizations, literally have needs for self-esteem that are regulated narcissistically”, these needs are mirrored (Kets de Vries and Miller 1984) by subordinate members of the group and legitimized by peer members. Therefore, the organization plays a vital role in conferring significance to the development of social identities. That is, the degree to which an organizational member feels connected to his / her social group may play dominant role the in the cognitive and behavioral development of that
individual (Dutton et al. 1994; Hatch and Schultz 2002). Brown (1997: 650) illuminates the rationale to consider narcissism at the organizational level stating:

“In an important sense….organizations exist in the minds of their members, organizational identities are parts of their individual members’ identities, and organizational needs and behaviors are the collective needs and behaviors of their members acting under the influence of their organizational self-images”

Importantly, it is through the development and socialization of individuals within an organizational setting that dark side behavior gain legitimacy (Boddy 2011) indicating that the development of appropriate HR interventions is paramount in minimizing the likelihood that dark side behaviors will become normalized (Campbell et al. 2011; Werbel and Balkin 2010).

While the growing body of literature exploring the concept of organizational narcissism and its variants has emerged over the last 20 years (e.g. Brown 1997; Campbell et al. 2011; Kets de Vries and Miller 1984; Rosenthal and Pittinsky 2006; Sankowsky 1995; Stein 2003, 2011; Stein and Pinto 2011a) there is a lacuna in respect of empirical understanding of how narcissism can become socialized and institutionalized within an organization and its field. Mainstream management scholars have traditionally taken what Kets de Vries (2011: 28) posits is a “mechanistic” approach to understanding the organization noting that management scholars have been more interested in surface-level analysis rather than a deeper understanding of what bubbles beneath the surface. Individuals inhabit organizations and institutions and as such, they contribute to the social reality that exists within their groups and organizations. The excessive risk-taking and poor decision-making behavior central to the financial crisis has graphically illustrated a painful fact about organizations and organizational behavior – “abnormal behavior” is more pervasive than most care to admit (Kets de Vries 2011: 29). Brown (1997) and Stein (2003) describe a number of narcissistic
dimensions that could be operationalized at the organizational or field level of analysis. These narcissistic dimensions may illuminate how dark side behaviors can frame risk-taking and decision-making behavior of the organizational members, other institutional actors and society at large.

2.6.3 Denial & Rationalization

Narcissistic behaviors are generally considered to be ego defense mechanisms aimed at maintaining or bolstering a positive sense of self (Duchon and Drake 2009) and it is this positive sense of self that limits organizational members from recognizing the negative impact of their behavior. Denial is employed as a means of coping with the emotions associated anxiety and/or failure and may either attempt to downplay potentially damaging perceptions of themselves in an attempt to protect self-esteem or may try minimize the discomfort by castigating those that draw attention to their failures. Once a critical point has been reached, the defense of the collective ego can prevent organizations, their field and even other institutional actors from acknowledging the existence of a crisis, thus maintaining ‘order’ through a form of social silences. High profile organizational failures such as Enron and WorldCom have been attributed to narcissistic behavior of leadership becoming embodied in the culture of the organization. However, more recently authors such as Brennan and Conroy (2013) and Whittle and Mueller (2012) have illuminated how failures of financial institutions can be attributed to both narcissism and exaggerated sense of pride associated with historical successes that may have resulted in a “delusional psychological” disposition (Stein 2003: 529) that views the organization as incapable of failure. This exaggerated sense of pride in the organization is known as hubris and can enforce the sense of denial and rationalization associated with excessive risk-taking and poor decision-making behavior.

Rationalization is applied as a strategic tool by organizations to provide plausible justifications for actions, behaviors and outcomes (Brown 1997; Kets de Vries and Miller
1984) contrary to social convention in an attempt to maintain a positive sense of self. The sense of collective rationalization can be conceptualized on a large scale among members of professional groups or those that share similar ideological positions therefore offering a degree of legitimacy associated with the rationalization tactic.

2.6.4 Omnipotence & Omniscience

The public inquiries convened to explore the causes of the financial crisis have argued that hubris played a significant role in the excessive risk-taking behavior of many financial institutions. Kets de Vries (1991: 353) posited that leaders of organizations have a “more than narcissistic tendency” and as such have a need to continue to be admired and adored. This behavior is enacted and endorsed in what Kets de Vries (2010: 36-37) refers to as the theatre of business in which organizational leaders engage in impression management and draw other organizational members into their dramas. Mirroring [recognizing and applauding exhibitionist behavior] depicts how followers reinforce the need of the leader for continual recognition and admiration. As leaders are viewed as authority figures (Stein 2013), followers will reinforce and legitimize the illusion of an all-powerful entity ultimately projecting their own wishes, fantasies and grandiosity through identification with the leader. The end result is a mutually reinforcing cycle that perpetuates the projection of this illusion (Hatch and Schultz 2002). The literature on the financial crisis illustrates how banking institutions became powerful leaders in their own right (Pozner et al. 2010: 191) resulting in the emergence of mirroring at the institutional level. Regulatory agencies and governments applauded the innovation and intellect of the industry (FCIC Report 2011) as well as the perceived financial contribution of that innovation to economic growth further legitimizing the sense of what Stein (2003) refers to as omnipotence (the view that banking institutions were all-powerful) and omniscience (the feeling that they had complete knowledge and understanding of their knowledge domain).
The perceived contribution that banking institutions were making to economic growth combined with their proximity to local corridors of power (Edelman and Suchman 1997) enhanced the legitimacy and the *mirroring* of their behavior. Ironically, as Palazzo and Scherer (2008: 774) have argued “labeling corporations as *political actors* is more powerful to advance the debate on corporate legitimacy and democracy”. Yet examining the impact of the crisis retrospectively the argument that business activities were considered depoliticized seems inconsistent with the reality of what happened. The political power and influence of banking institutions was succinctly stated by Honohan (2010b: 16) - “regulatory authorities were extremely deferential and accommodating; insufficiently challenging and not persistent enough”.

2.6.5 *Multi-Institutional Organizational Narcissism*

Stein’s (2003) study of Long Term Capital Management (LTCM) a hedge fund that collapsed in 1998 mirrors quite a number characteristics of many of the banking institution’s at the center of the financial crisis. Organizational narcissism offers insight into why many banking institutions failed to heed the warnings of a slowing property market and why regulators and the State failed to recognize indications of economic instability. Organizations will engage in external displays of uniqueness and unlimited ability (Brown 1997) which become embodied in myths, rituals and stories of the organization (Duchon and Burns 2008; Hatch and Schultz 2002). They become socialized in organizational practices, beliefs and identity. The organization offers individuals and group a means by which their positive self-esteem can continuously be recreated and sustained (Brown 1997: 664). This reflects the *mirroring* alluded to by Kets de Vries which subsequently validates and legitimizes the organization’s narcissistic identity and legitimacy over accountability (Ganesh 2003: 568). These beliefs and identities become crystalized in the mutual redefinition of the organization making it difficult

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4 Palazzo and Scherer (2008) emphasis in the original
for contrarian opinions to challenge the collective. Once embedded, organizations like individuals can exhibit extreme narcissistic behaviors such as: denial, rationalization, self-aggrandizement, attributional egotism, sense of entitlement and anxiety (Brown 1997: 646), extreme pride [hubris], triumphant contempt and dismissiveness (Stein 2003: 530). Many of these behaviors were present prior to and during the crisis. When the organization’s self-esteem has been fractured, the organization will pursue a strategy of defending its narcissistic identity and self-esteem and strike out at its attackers (Bergman et al. 2010).

2.6.6 Attributional Egotism & Triumphant Contempt

The dynamics of Social Silence (Bourdieu 1977; Tett 2009c) illuminate how multiple institutional actors can engage in behavior that is considered cognitively and ideologically biased toward protecting the identity and power of the ‘group’ as a whole. In essence, ego defense, anxiety management and collective identity protection exhibit extreme narcissistic characteristics that transcend the organizational boundary and may play out at an institutional level. Stein (2011: 174) for example, argued that a “manic culture” comprised of narcissistic characteristics such as: denial, omnipotence, triumphalism and over-activity was a central behavioral characteristic of the banking profession. Moreover, he argued that because of this manic culture the crisis response of banking institutions was significantly reduced further increasing the cultures’ vulnerability (p.176). More recently, Whittle & Mueller (2012) explored aspects of the UK banking crisis through a unique Discursive Devices Approach (DDA) analyzing interview transcripts from the House of Commons Treasury Committee. They uncovered forms of attributional egotism (Brown 1997) emerged as a theme as bankers sought to externalize responsibility and blame exogenous events for the failure of their institutions (p.115).

The financial crisis offers insight into how multiple institutional actors embodied a collective identity, similar cognitive frameworks and focused opinions. These dimensionalized
cognitive processes referred to by Tett (2009c) as cognitive capture and Taleb (2010) as mental contagion illustrate a collective basis through which multiple institutional actors could engage in coping with the anxiety of dealing with the reality of rapidly deteriorating economic conditions and subsequently rationalize and justify the use of social silence to control the cognitive map of the public. Throughout the extant literature, narcissism has been linked to risk-taking behavior and overconfidence in one’s abilities (Kets de Vries 2009; Li and Tang 2010; Miller et al. 2009). What is interesting about the crisis is that these behaviors appear to have existed in one form or another among multiple institutional actors such as: regulatory agencies, the state and academics institutions. Campbell et al. (2011) have noted that many banking and financial institutions engaged in self-destructive patterns of behavior in a race to the bottom in the property bubble and commercialization of securitization. Although there is merit in their argument, it could be argued that numerous official government reports into the causes of the crisis indicate that extreme narcissistic behavior extended beyond the meta-organizational level identified as “competitors” (Campbell et al. 2011: 13) and became institutionalized among multiple institutional actors in the field.

This financial crisis, unlike most other historical financial crises - is a game changer. The global financial crisis is a ‘cosmology event’ whereby people “suddenly feel their universe is no longer a rational, orderly system” – a case of vu jâdé: we’ve never been here before (Weick 1993:633). The sense of collective denial has been pervasive within the banking industry and may also have been evident within the wider institutional environment (Stein 2011). However, this collective denial may mask a more worrisome systemic institutional problem. According to Tett (2009d) the impact from the financial crisis had left “everyone from finance minister or central banker to small investor or pension holder bereft of an intellectual compass, dazed and confused” – the universe as many knew it, no longer made sense. The global financial crisis has resulted in a paradigm shift with some commentators
calling for a re-examination of how markets work, *Homo Economicus* behaves, and how organizations and institutions function (Munir 2011). The literature on the global financial crisis reveals organizational narcissism may have played a more pervasive and destructive role in the financial crisis than has previously been considered. Blaming the global financial crisis on lax regulation, pro-cyclical macroeconomic policies, leadership failures and questionable lending practices is like blaming an iceberg for the sinking of the Titanic – it is tautological. This crisis was and is a global unconscious phenomenon, that is, it operated outside the rational *Homo Economicus* tradition of mainstream economic, management and organizational behavior theories. The complex issues at the center of the financial crisis extend beyond the structural problems and are more reflective of cognitive and behavioral factors at organizational and institutional levels of analysis.

2.7 Social Silence – Institutional Level Antecedent

The financial crisis has sparked renewed interest in Bourdieu’s (1977) critical discourse on the power-elites debate (e.g. Kerr and Robinson 2012; Reed 2012; Zald and Lounsbury 2010). Tett (2010b), one of the first mainstream commentators on the financial crisis observed that the impact of the crisis was exacerbated as a result of elite actors controlling the cognitive map of the public through social silences. Tett (2009c: 7) posited that what was most important was not what was publically discussed, but what was not publically discussed – “social silences, in other words, were crucial”. Bourdieu (1977) illuminated how social silence legitimized the message conveyed to the public; even when that message was less that truthful:

“…language that can command attention is an authorized language, invested in the authority of a group the things it designates are not simply expressed but also authorized and legitimated”
The extant literature then would posit that financial crises have a higher likelihood of occurring when our inability to understand and our recalcitrance to accept what we cannot understand is coupled with a complicit collective denial that maintains and reinforces the legitimacy of the status quo (Bourdieu 1977). Moreover, the impact from a financial crisis may be exacerbated when gatekeepers ensure the status quo is not challenged by contrarian opinions (Pozner et al. 2010: 201). In short, a social silence needs to be maintained because the alternative can potentially delegitimize the position of the elite actors who have captured the cognitive map (Tett 2009c) of the general public and some elite institutional actors.

2.7.1 Elite Actors & New Corridors of Power

The new elite actors are no longer confined to traditional centralized corridors of power (Zald and Lounsbury 2010) but have migrated to organizations and professions which possess expertise that has become the new currency of legitimacy (Scott 2008b: 27). The expansion of the organization into the institutional field (DiMaggio and Powell 1983) now takes place within a process of continued organizational identity formation. Hatch and Schultz (2002: 1004) provide a rich description of how the process of organizational identity development is dynamic, emergent and continually socially constructed by multiple stakeholders who join the dance. As multiple stakeholders are drawn into the organization, the boundary between organizations, stakeholders and institutions becomes blurred. External stakeholders, customers, suppliers, regulators and other government agencies may begin to identify with an organization adopting cultural, organizational and ideological values. Consequently, the blurring of the organizational boundary results in external stakeholders viewing themselves as extended members of the organization in an attempt to affiliate with the in-groups who possess superior knowledge and understanding. The organization is thus reconceptualized in a process of mutual redefinition (Hatch and Schultz 2002: 990) – power elites are now more
diversified both horizontally and vertically. As Zald and Lounsbury (2010: 970) argue - the “very notion of ‘elite’ seems to be in flux” and it is this flux that creates a more dispersed yet no less influential social elite – the professions.

The mutual redefinition of the organization can thus enable social silences to become legitimized. The more embedded and closer the ideological orientation of the actors, the more aligned the world view and the easier it becomes to control what was said – or not said (Tett 2009c). Mutual redefinition in the context of the financial crisis may have been made possible by information, knowledge and intellectual asymmetries. Scott (2008b: 225) provides a stark illustration of how the professions have legitimate institutional claims:

“….professionals’ ‘orders’ are followed to the extent that the client accepts the knowledge claims made by the professional and believes they are being employed on the client’s behalf”

2.7.2 Capturing the Cognitive Map

As a result of knowledge/intellectual asymmetries, those tasked with regulating the behavior and rule compliance can view elite actors in a more deferential light than might be justified (Honohan 2010b: 16). The risk associated with intellectually tightly coupled professions such as banking, finance and economics is twofold: first, knowledge/intellectual asymmetries can perpetuate the belief that members of the social intellectual elite are omniscient, this can result in an over reliance on impressive mathematics and complex models to rationalize and justify behavior (Krugman 2012). Second, these asymmetries can manifest as both regulatory and cognitive capture (Davies 2010: 178; Krugman 2009) and legitimize social silences as an accepted mechanism for dealing with challenges to the status quo. The question of what is to be gained from dispelling contrarian opinions to the consensus position is found in how we protect our self-esteem. Interestingly, Taleb (2010: 151) argued that experts tend to engage in
spin in the form of a “belief defense, or the protection of self-esteem”. Considering this, it is plausible that social elites can engage in social silence practices for reasons other than controlling the message. Social silence can emerge in the “collective denial of economic reality – in doing so, the group is neither a deceiver nor deceived” (Bourdieu 1977: 196).

Accepting the reality of fragility in the system is to acknowledge fundamental flaws in ideological beliefs, knowledge and intellect. When Bourdieu (1977: 188) presciently argued that “the most successful ideological effects are those which have no need of words, and ask no more than complicitous silence” one could hardly have imagined it could be applicable to our understanding of global financial and economic crises.

2.8 Tripping the Dark Side - HR Interventions & Dysfunctional Behavior

The extant literature has so far illuminated a number of organizational and institutional dimensions that facilitate the legitimation of dark side behaviors [e.g. collective cognitive capture, organizational culture & management dispositions, political influence/regulatory capture]; however, there is a catalyzing agent that potentially facilitates the legitimation and acceptance of dark side organizational behaviors – the function and practice of Human Resource Management & Development. Over the last two decades, the scholarly pursuit of HR [HRM & HRD] has been characterized by identifying the contribution of HR interventions in sustaining competitive advantage (e.g. Garavan 2007; Garavan 1991; Peterson 2008; Ulrich and Brockbank 2005), developing ethical cultures, leadership, processes & practices (Ardichvili et al. 2012; Ardichvili et al. 2009; Foote and Ruona 2008; Hatcher 2002; SHRM 2008) and the promotion of organizational sustainability and corporate responsibility strategies (Ardichvili 2013; Fenwick and Bierema 2008; Garavan et al. 2010; Garavan and McGuire 2010; Gond et al. 2011; Preuss et al. 2009) yet surprisingly little attention has been paid to how these strategies can result in negative rather than positive outcomes for the organization.
Notwithstanding the necessity for every organizational function [e.g. Engineering, Sales & Marketing, Finance etc.] to demonstrate its contribution to the organization’s financial bottom-line figures, HR as a function deals not in selling a product – it deals in selling a ‘vision’ and it is in selling that vision that HR has the potential to influence cognition, behavior and ultimately actions. Werbel and Balkin (2010) have argued convincingly that the failure of financial institutions is characteristic of chronic misconduct. Indeed, Werbal and Balkin (2010) developed a rational choice model to illuminate how HR practices can inadvertently result in misconduct as a result of information asymmetries [between supervisor and supervisee], incentives and performance management programs focused on short-term performance horizons rather than long-term objectives and legitimation of dark side behaviors associated with achieving or exceeding performance goals. More trenchantly, Bierema’s (2009: 68) suggestion that the practice of human resource development has become an active participant in the ‘hegemonic practice of management’ reflects the limited theoretical and intellectual capacity of the field to see beyond the economic/financial outcomes and in the process lose sight of the importance of cognitive and behavioral dimensions that underscore HR. HR’s inability to think outside the box of Capitalism (Bierema 2009; O'Donnell et al. 2006) potentially renders it incapable of developing policies, practices and procedures that can circumvent the socialization and legitimation of dark side behaviors.

2.8.1 Scene Setting Dark Side Behavior

Whilst it can be argued that organizational failure is as predictable as the ubiquitous business cycle (Shrivastava et al. 1988) the cognitive & behavioral aspects organizational functioning are less predictable. Ideologically and organizationally formed identities; bonus structures and incentive schemes focused on short-term performance objectives; and talent management strategies that promote acceptance of ethical/moral opacity highlight many challenges for HR
practitioners. The close alignment of HR with the organization’s goals and objectives has the capacity to detach HR from its espoused aspirations in pursuit of only one object – to make a contribution to the financial bottom-line. The causes of the financial crisis are many and to some degree, highly contested. Nevertheless, the previous sections of this chapter have highlighted how dark side behaviors require a catalyst to activate or legitimize these behaviors. Despite divergent perspectives regarding the root cause of the crisis, one aspect at the core of the financial crisis unites the multitude of opinions - human failures: that is, failures of people, intellect and knowledge and it is for this reason that HR might be considered a catalyst or catalyzing agent. Arguably, strategic human resource development practices allow organizations to capitalize on various forms of knowledge to ensure sustained competitive advantage (Garavan 2007) yet it is evident that integration of HR activities with the organization’s goals and objectives can have detrimental effect on organizational performance and viability.

The general area of HR is tasked with management, development and engagement of every aspect of human contact within the organization; however, it is HRD as an area of scholarly debate and practical application that is tasked with shaping organizational culture; developing current and future leaders; and building capacity, capability and commitment among organization members thus anticipating and managing responses to changed conditions inter alia (Garavan 2007; Stewart et al. 2010; Stewart and Sambrook 2012). These critical functions can be closely linked with the failures of people in many banking and financial institutions. The unchallenged acceptance of economic theories that underscore human behavior reflects many limitations when valuing human capital as one in the same as other forms of organizational capital such as financial and structural capital (e.g. Ardichvili 2013; O'Donnell et al. 2007; Trehan and Rigg 2011). The impact of the financial crisis has seen HR scholars and practitioners move beyond the ‘economics’ of efficiency and
productivity. While the full economic impact of the global financial crisis is still somewhat unknown the implications for HRD scholars and practitioners is clear. The failure of leaders and managers in banking institutions that engaged in excessive risk-taking behavior was also a HRD failure [leadership development failure]; the inability of regulators to maintain adequate levels of knowledge and enforce financial regulations was also a HRD failure [learning, training and development failure]; the neo-classical centered curriculum of HRD programs in many business schools that promoted human capital as a ‘factor or production’ without considering cognitive or behavioral dimensions was also a failure of HRD [theoretical failure].

2.8.2 HRD Theory Antecedent of Dark Side Behavior

The theoretical underpinnings of HRD although frustratingly difficult to define (Lee 2010; McGoldrick et al. 2001; McLean and McLean 2001) are understood as derived from three distinct applied philosophical domains. Swanson’s (2001: 306) ‘three legged stool’ metaphor describes the economic, systems and psychological genesis of HRD theory and is important for a number of reasons. First, it highlights why there are often tensions inherent in balancing the needs of people, organization and shareholders (Bierema 2009; McGuire et al. 2007). While economics provides a sense of credibility to the practice of HRD; that is, the traditional performance-based position that seeks to achieve goals and objectives through utilization of the organization’s human capital, it is of limited applicability in understanding the humanist aspect of HR. The economics orientation which is primarily concerned with performance and efficiency can and does undermine the people role of HRD practice resulting in tension and a return to shareholder primacy during turbulent times (Bierema 2009; Fenwick and Bierema 2008). Second, the systems theory perspective allows practitioners to utilize their understanding of process and interconnection within the organization so as to shape alternative futures utilizing human resources to do so. Although, the systems approach is not
without its limitation (see Yawson 2013) it does view the organization as a diverse eco-
system of human behaviors and interactions – in this sense, the whole is certainly greater and
more complex than the sum of its parts, capable of incredible feats of ingenuity and at the
same time prone to failures of almost unimaginable impact. Finally, the psychological
principles help illuminate behavioral intentions and cognitive processes of the organization’s
human capital so that they can be developed and harmonized to achieve the organization’s
goals and objectives. Although the psychological principles that underscore HRD theory form
only part of the ‘three legged stool’ metaphor, arguably it is the psychological principles that
are the most critically important to both the study and practice of HRD. Given that the
psychological leg is concerned with the behavioral and cognitive processes of the
organization’s human interface; understanding this dimension becomes critically important
when explored in the context of the financial crisis and the intellectual and knowledge
failures central to its emergence.

The traditional orientation of HRD practitioners and scholars has been towards aligning
human intellectual capital with the organization’s goals and objectives to achieve and sustain
competitive advantage (Garavan 2007; Garavan et al. 2004; Hung et al. 2009; Kuchinke
2000; May et al. 2003): or perhaps, more specifically – the conversion of human talent and
ingenuity into economic and financial output. As seen from a more strategic perspective,
HRD has achieved legitimacy through the conversion of human talent into economic and
financial returns for the benefit of organization. The financial crisis however, has illuminated
features of organizational behavior that are often mooted in more circumspect debate and
illustrate limitations in economic centric theories of HRD or what can be referred to as the
economic asymmetric orientations of HRD scholarship and practice. Whilst a debate about all
the theoretical underpinnings of HRD is beyond the scope of this chapter (see previous
chapters on HRD theory) it is important to recognize that economic theory has had a
significant influence on the practice of HRD and to a lesser degree, the scholarship of HRD (Kuchinke 2000; Wang and Holton 2005). And, while it is fair to say that HRD practice plays a role in the pursuit of sustained competitive advantage, on the whole the HRD profession has consistently faced challenges of legitimacy and credibility (MacKenzie et al. 2012; O'Donnell et al. 2006) in justifying its worth to the organization.

One theory that has been both extensively utilized by HRD scholars and is recognized by HRD practitioners as a way to contribute to sustaining competitive advantage is the resource-based view (RBV) of the firm (Penrose 1995; Wright et al. 2001). The resource-based view of the firm posits that internal [human] resources are considered potential sources of competitive advantage (Wright et al. 2001) so the attraction of this theoretical lens to HRD scholars and practitioners is understandable. The RBV then focuses on how the organization [firm] might develop unique bundles of human and technical resources in an effort to achieve superior performance (Lado et al. 2006; Wright et al. 2001). The oft cited statement that people are the most important asset in the organization (Boxall and Purcell 2008; Porter 1985) illuminates why the RBV is so attractive to many HR practitioners but perhaps is considered most important to HRD specialists tasked with developing the organization’s human intellectual capital.

The appeal of RBV to HRD specialists is borne out in its ability to capture the ‘capabilities’ (Garavan 2007; Peterson 2008) of the organization’s intellectual capital for the benefit of its shareholders [assuming a profit seeking orientation]. However, if we consider this ‘economics’ based theory purely on its merits, then its central tenet is that human capital is an organizational resource to be exploited in a means ends manner (O'Donnell et al. 2006) thus calling into question the truth about HRD’s ‘people’ responsibilities and the rhetoric that people are the organization’s most important asset. The RBV from a human resources perspective suggests that individual human capital is embedded within a socially constructed
and dynamically complex arrangement, responsive to and reflective of a multitude of human emotions and behaviors. To suggest that human beings can be detached from their emotions, cognitions and behaviors ignores their very human frailties and questions whether HR is developing people or products. As Fenwick (2011) trenchantly asked - for whom and for what are HRD professionals developing resources? The financial crisis might suggest an answer to this probing question. Dave Ulrich (2014: 1) recently suggested that a successful organization can be characterized by ‘three domains: individuals [talent] capabilities [culture] and leadership. These ‘domains’ Ulrich (2014) argues, are central to organizational success and the delivery of the organization’s strategy. Whilst it is difficult to disagree with some of what Ulrich has suggested – the overreliance on utilizing the resource-based view as a theoretical lens to underscore the organization’s capabilities has [most recently in the context of the financial crisis] highlighted the significant limitations of economics-based theories when dealing with human behavior and cognition. It is precisely because of our overreliance on economics-based theories that we may have become somewhat desensitized to the dark side behaviors found to have played a central role in the financial crisis.

It is difficult to argue with the position that viewing the organization’s most valuable ‘human assets’ as a form of ‘economic capital’ provides ample justification for ‘absolving managers from any responsibility’ (Stacey 2010: 44) when those human assets fail. As the previous sections have illuminated – the dynamics of human cognition and behavior can only really be understood when one is prepared to explore their operation from a ‘sociological imagining’ that allows us to ‘understand our biography in the context of the wider social, economic, cultural and historical dimensions that shape and often determine reality’ (Gold and Bratton 2014: 6). Anything less is looking for answers to a different set of questions.
2.9 Conclusion

This chapter has provided a review of the literature on dark side behavior, cognitive and behavioral factors that influence dark side behaviors and the institutional factors that can legitimize these behaviors. One of the significant criticisms of the above literature is its ability to illuminate the social factors that form antecedents of dark side behavior. Moreover, the literature has struggled to illuminate the interplay and multiple levels that may help illuminate how dark side behavior can embed at the institutional level. This failure is potentially quite significant. Given that the financial crisis of 2008-2009 has resulted in approximately three decades of global economic output losses (Krugman 2012) it is curious as to why a more focused and reasoned debate has not emerged. If much of the “current destruction in the financial and real estate industry…have the appearance of narcissistic damage at a meta-organizational level” (Campbell et al. 2011: 280) then the focus must shift or at least explore how and what social factors influence the development of dark side behavior within the organization and within the organizational field. In summary, a number of research lacunae are evident in the extant literature. These lacunae include the failure of HR scholars and practitioners to take into account the impact their interventions can have on the viability and sustainability of their organizations, the impact of emotional connections of organizational members and subsequent development of dark side behaviors such as organizational narcissism and the institutionalization of dark side behaviors through social silences and the predisposition of HR scholars to continue to explore human cognition and behavior through economics-based theoretical lens. These research gaps are addressed through the three articles, presented in the next chapter.
CHAPTER THREE
METHODOLOGY
“Do not settle for average or ‘easy-to-do’ research. HRD needs groundbreaking, creative, and innovative research that will move the field forward and provide solutions to HR-related problems”

Tim Hatcher (2009)

3.1 Introduction

It should be noted at this point that the articles that form the basis of this thesis all draw from the same data sources: public inquiries exploring the causes of the financial crises in the UK & US as well as official reports from Ireland, UK and US. It is also important to note that throughout this chapter, a plural approach is taken for two reasons i) although this research reflects my own work, I benefited from the insight and direction of both academic advisors in approaching such a daunting research project ii) no research is wholly a sole endeavor – it has the academic imprint of those who guide, direct and shape the researcher. I therefore use ‘we’ throughout this chapter.

This chapter outlines the theoretical and philosophical position in relation to the research proposal as well as the many challenges faced in both securing access to the data but also the analysis of a significant quantity of data. In doing so, it highlights the particular research approach, including the philosophical assumptions that underpinned the research orientation. As this proposed research was located within the field of social science research, particular consideration was applied to the philosophical method, data collection and analysis of data. Given the sensitive nature of this research, particular attention was paid to a number of factors associated with a) how to access the data, b) what data was appropriate for analysis, c) whether access to the data would address the core objectives of the research, and d) how and why the analysis of the data might inform the fields of human resource development, management, leadership and organizational behavior. Next, this chapter will describe the extensive data analysis stage, which comprised 18 months’ work.
3.2 Research Approach

Fundamentally, all social scientists according to Burrell and Morgan (1979) approach their research area with ‘explicit or implicit assumptions’ about the nature of the social world and how it may be interpreted and investigated. These assumptions are grounded in the positivist (objectivist) / interpretivist (subjectivist) dichotomy which may guide or influence the researcher. For many researchers, assumptions based on how they view the world will inform their research orientation and will influence not just their theoretical approach but also their philosophical bent, research strategy and means by which (s)he will go about “obtaining the data” (Burrell and Morgan 1979: 1). At the outset, the overriding research aim and research objectives are highlighted and to that end, all decision regarding research methodology were made with those objectives central to the decision-making process.

This research sits within the relativist paradigm and pursues a social constructivist ontology, which views multiple versions of reality (Aguinis et al. 2009). This research therefore takes a subjectivist epistemology accepting that social interaction is fundamental to interpretation and knowledge creation (Stake 2005). This was a fundamental consideration of this research and was deemed most appropriate for the research topic under investigation. Relativism emerged as a continuum of alternative philosophies that diverged from the restrictions of the positivist assumption that scientific knowledge is cumulative, impervious to exogenous and endogenous influence, and a complete representation of reality (Burrell and Morgan 1979; Stake 2005) – the global financial crisis therefore is at odds with the positivist paradigm. All research strategies require the researcher to consider the most appropriate approach based on the specific question, aims and objectives. Robson (2002) provides a well-cited classification of research strategies: exploratory, descriptive and explanatory. Exploratory studies “seek to find out what is happening, seek new insights and pose questions to assess a phenomenon in a new light” (p.59). Descriptive research is focused on providing an accurate profile of persons
events and/or situations and should therefore be considered a “means to an end rather than an end in itself” (Saunders et al. 2003: 97). Explanatory studies examine the causal relationships between multiple variables to try and explain patterns associated with the problem or phenomenon. This research is situated within the exploratory strategy classification.
Table 3.1: Methodological Paradigm Comparisons Table and Philosophical Position [in Turquoise]

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Positivism</th>
<th>Relativism</th>
<th>Pragmatism</th>
<th>Realism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>The physical and social reality is independent of those who observe it. Observation is unbiased and constitutes scientific knowledge</td>
<td>Contemporary intellectual movement characterized by its skepticism about the foundations of Western philosophy, includes historical relativism, social constructivism, postmodernism, critical theory, hermeneutics.</td>
<td>Philosophical movement characterized by the relation of theory and praxis and specifically in the predetermined outcomes of an inquiry.</td>
<td>Philosophical movement characterized by existence of mind-independent reality and the ability of a theory to capture partial aspects of reality [conjecture realism, structural realism, realistic pragmatism, critical realism]</td>
</tr>
<tr>
<td>Ontology</td>
<td>Objective: Reality is the empirical world</td>
<td>Subjective: Reality is socially constructed</td>
<td>Subjective: Similar to postmodernism. Objective: Reality places limitations and constraints on our actions</td>
<td>Objective: Reality exists independent of our cognition. Thus, there is no basis to reject the metaphysical [epistemic fallacy]</td>
</tr>
<tr>
<td>Epistemology</td>
<td>Objective: The correspondence between our statements and reality through inductive verification or deductive falsification</td>
<td>Subjective: There is no privileged epistemology due to the incommensurability of discourses</td>
<td>Subjective and dependent on practical consequences</td>
<td>Subjectivist: There is no predefined or predetermined methodology or criteria to judge the veracity of our knowledge</td>
</tr>
<tr>
<td>Knower</td>
<td>Positivist: The knower is independent of the empirical world [passive observer]. Furthermore, the mind can mirror the empirical reality</td>
<td>Constructivists: The knower is in the world and cannot stand outside of his/her socio-linguistic constructs to view it objectively</td>
<td>Consequentialist: The knower has a priori cognitive frameworks which affect his/her perception of the world</td>
<td>Perspectivalist: The knower has a priori cognitive frameworks which affect his/her perceptions of the world</td>
</tr>
<tr>
<td>Language</td>
<td>Language is value free and provides a means to mirror and correspond to the empirical world [analytic/synthetic distinction]</td>
<td>Language is self-referential, i.e. it does not refer to any transcendental entity beyond itself. This presupposes its value and interest-laden nature</td>
<td>Language is not self-referential but actionable and functions to meet the agent’s goal and purposes</td>
<td>Language is not self-referential or theory neutral but describes albeit partially, the underlying mechanism and structure of a phenomenon</td>
</tr>
</tbody>
</table>

Sources: Bickman & Rog (2009); Bryman & Bell (2007); Van De Ven (2007: 47); Denzin & Lincoln (2008: 14-16)
3.3 Researching Sensitive Organizational Issues

The focus of this research is located within text-based tradition of exploring organizational events through the eyes of the witnesses (e.g. Brown 2004, 2005; Gephart 1993; Weick 1993, 2010; Whittle and Mueller 2012). Often, the most challenging and compelling topics for social science researchers involve sensitive organizational issues (Jehn and Jonsen 2010; Sieber and Stanley 1988) and in this respect, the near failure of the global financial system would fit this bill. Sensitive research topics often emerge following extreme events that have significant financial, economic or social impact (Buchanan and Denyer 2013). These extreme events invariably prompt governments to convene public inquiries in establishing how and why these extreme events occurred (e.g. FCIC Hearing 2010a; Treasury Select Committee 2010; US Senate hearings 2011b) and can be a very useful primary and secondary source of data for social science researchers. Public inquiries are considered ceremonial events (Gephart 1993: 1474) commissioned to retrospectively explore conditions that lead to organizational crises/disasters⁵ (Turner 1976). Scholars such as Brown (2000, 2004, 2005), Gephart (1984, 1993), Weick (1990, 1993) and more recently Buchanan and Denyer (2013) have argued convincingly that public inquires provide an important empirical resource for management and organization scholars to explore difficult-to-study events from the perspectives of the eye witnesses directly involved. Public inquiries seek to elicit answers to four questions: What happened? Could it have been prevented? Who is to blame? What lessons can be learned so it never happens again? Public inquires also serve two more fundamental purposes: a) to ensure mistakes are not repeated (Buchanan and Denyer 2013;

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⁵ Industrial crises are disasters caused by human agencies and the social order (Shrivistava et al., 1988: 287) and throughout this thesis, the financial crisis is synonymous with Industrial Crises
Gephart 2004) and b) to enable institutions regain some degree of legitimacy following organizational failure predicated on a lack of institutional oversight (Brown 2004).

Public inquiries therefore provide unique opportunities for organizational and management scholars to gain access to more sensitive organizational topics which would ordinarily prove impossible to investigate (Bahn and Weatherill 2013; Buchanan and Denyer 2013; Gephart 1993). The US Senate Hearings (Senate Hearings 2010a, b, c), FCIC Hearings (e.g. FCIC Hearing 2010c, d, e), UK Treasury Select Committee Hearings (see Treasury Select Committee 2009a, 2010, 2012) as well as the Irish banking crisis official reports (Honohan 2010b; Nyberg 2011; Regling and Watson 2010) provided an exceptional source of reliable primary and secondary data with which to explore why organizations engaged in appraising risk, excessive risk-taking and poor decision-making behavior central issues in the financial crisis. Moreover, public inquiries provide an avenue of exploration to researchers than can, and does uncover narratives that few interviews could uncover due to the sensitivity of the topic. The true value to researchers of utilizing public inquiries as part of their research methodology is illustrated in this Senate Hearing (2010b: 7) commentary:

“….a focus on short-term profits also permeated the industry. One of the witnesses here today will describe how when he once questioned a banker about the terms of a deal, the banker replied, “IBG-YBG.” When asked what that meant, the banker explained, “I’ll be gone, you’ll be gone” – in other words, why give me a hard time when we are both making a lot of money and will be long gone before the house of cards comes crashing down”

It is doubtful whether this degree of candor would have emerged during interviews conducted by a seasoned academic researcher let alone a novice PhD candidate. These quotes illustrate that in many banking institutions, there was a widespread legitimation of dark side behaviors
that limited the impact of reasoned debate. Moreover, it demonstrates a degree of ethical/moral disengagement wherein the actors understood what they were doing was potentially organizationally damaging yet still engaged in dark side behavior. Whilst the public inquiry and academic research emphasis has been focused on structural [regulatory failures/ideological failures/theoretical failures] it is the cognitive and behavioral failures that remain less well understood. Given that the critical issues were human failures such as excessive risk-taking and poor decision-making behavior, it is hard to reconcile why the focus on the structural issues has been given primacy over issues of human agency. Not only should managers in charge of people “study the behavioral consequences of HR practices that lead to dark side behaviors” (Werbal and Balkin 2010: 325) but it should be a priority within research community to gain a more fundamental understanding of how the failure of human agency is the one critical organizational dimension that has a potentially profound impact beyond the organizational boundary. Have we, as Greenwood ponders (2008: 152) been looking in the wrong places and asking the wrong questions? One could argue we’ve been looking in the right places, just not asking the right questions.

Within the category of sensitive research topics lies a sub-category we refer to as extra sensitive organizational issues. Extra sensitive research topics such as: greed, corruption, unethical/illegal behavior, organizational/leadership psychopathy, Machiavellianism, Narcissism [Dark Triad] and fraud can play a central role in organizational crises and/or disasters (Ashforth et al. 2008; Campbell et al. 2011; Fligstein and Goldstein 2010; Shrivastava et al. 1988; Sims and Brinkmann 2003) making them vitally important research topics to social science researchers from a crisis post-mortem and theoretical development perspective. Extra sensitive research topics are differentiated from more benign organizational issues due to the potential for negative personal [loss of trust / power / authority], organizational [reputational damage / ethical flexibility], institutional [de-
legitimacy / illegitimacy] and societal [socioeconomic] outcomes. Whilst the sensitive nature of these organizational topics may have wide appeal to social science researchers, access issues, lack of organizational transparency, participant resistance and institutional interference can deter all but the most committed of researchers. Banking crises, organizational failures and economic recessions reflect rare events that insiders\textsuperscript{6} consider sensitive subject matters, but are made extra sensitive when evidence emerges that greed, corruption and unethical behavior may have played a central role in these crises (Brown 2005; Weick 2010). In this research exploring dark side organizational behavior in the context of the global financial and economic\textsuperscript{7} crises in Ireland, the US and the UK we remained cognizant of these challenges yet resolute and undeterred.

The potential benefit of advancing our understanding of how and why dark side organizational behavior might become embedded within and beyond the organizational boundary far outweighed the many roadblocks, challenges and setbacks commonplace among researchers pursuing sensitive topics (Alison et al. 2001). Gaining access to participants was not considered a panacea as research on sensitive topics has the capacity to result in either “low response rates or social desirability bias” (Gephart 1997: 585). We needed to understand the narrative that illuminated the “biographical particulars as narrated” (Chase 2005: 651) by those who lived it. This would have proven very difficult given the sensitivity surrounding the multiple organizational failures this research intended to explore. The challenges faced by any social science scholar pursuing sensitive and difficult-to-study topics includes not only how to gain access to participants who may or may not respond truthfully to questions on sensitive organizational issues but whether the methods used are appropriate for this type of inquiry. Indeed, the real challenge for research scholars is twofold:

\textsuperscript{6} Insiders refers to organizational/institutional actors with similar professional/ideological affiliations

\textsuperscript{7} The global financial & economic crises will be referred to as the financial crisis
Knowing where to look for the data that already exists but may be fragmented, obscured, contextually detached or presumed to be irrelevant and;

Knowing what replicable analysis methods can augment the unobtrusive measures of sourcing relevant, reliable and representative data.

Whilst it is accepted that no research method is without some bias, the utility to researchers of adopting an innovative approach to data gathering, and data analysis is cogently articulated by Chase (2005: 1) and should provide a reality check for all research scholars:

“Interviews and questionnaires intrude as a foreign element into the social setting they would describe, they create as well as measure attitudes, they elicit atypical roles and responses, they are limited to those who are accessible and will cooperate, and the responses obtained are produced in part by dimensions of individual differences irrelevant to the topic at hand”

Webb et al. (1966) highlight an important issue associated with researchers influencing the dynamic of the interview – merely by being present; the researcher can change the behavior of the interviewee, memory recall and outcome. While unintentional, the researcher has the capacity to create an outcome that bears little or no resemblance to the reality of the phenomenon under investigation. Even if researchers have no access issues there are problem inherent in utilizing blunt instruments to elicit insight on what might shine a light in a very unwelcome corner or organizational life. Seeking insight from organizational insiders into why something extreme may have happened is unlikely to produce any valuable understanding given the potential to ‘frame’ the direction of the inquiry. Jehn and Jonsen (2010: 315) highlight some of the issues associated with conducting research on sensitive organizational issues noting that:
“…many of the classical problems of self-report methodology, such as response biases and low response rates, are amplified when the method is applied to the study of sensitive issues.”

Arguably, no research method can claim to be perfect when dealing with sensitive research issues; however, the direct approach whilst on the surface might seem like the researcher has struck gold has its limitations. Van der Heijden et al. (2000: 507) recognize the challenges faced by researchers using survey methods to explore sensitive issues and cite “deliberate misreporting” and “underreporting for socially disapproved items” as likely sources of errors in reports of sensitive behavior. The issues of misreporting and underreporting socially sensitive issues are not confined to survey instruments – qualitative research also face similar problems. Even if the researcher is fortunate enough to convince the organization to provide access, researchers exploring sensitive research topics are often left to infer causal determinants based on incomplete or inaccurate data.

Public inquiries provide a valuable source of reliable empirical data that potentially circumvents the ‘access’ issues associated with investigating sensitive organizational topics; however, researchers still face other challenges not least of which includes the selection and application of appropriate methodologies to investigate the phenomenon. The topic of this research - banking failures, are considered low-probability, high-impact events that threaten “the viability of the organization” and are “characterized by ambiguity of cause, effect, and means of resolution” (Pearson and Clair 1998: 60). Accordingly, they are unique data sources for researchers exploring sensitive organizational topics. Indeed it was the availability of this rare and insightful data that prompted this choice of research methodology.

3.3.1 Lifting the Hood – Deriving Initial Concepts & Themes

Researching difficult to access topics can be a nightmare for any researcher, let alone a novice Ph.D. candidate; however, I was more fortunate that most when researching my
particular area – dark side behaviors. The pace at which the financial crisis seemed to envelope organizations, societies and even whole countries meant that everyone had an opinion on what caused the financial crisis. The downside to all these opinions was that the noise needed to be filtered out. As a researcher, one needs to have some idea of what is relevant and what is not. Relevant noise acts like a signpost that create conceptual or thematic anchors – the financial crisis was awash with signposts. Much of the initial literature and mainstream commentary focused on the ethical or moral issues associated with the poor decision-making in many banking institutions or dysfunctional organizations that created bonus cultures (Treasury Select Committee 2009a) focused only on short-term objectives and associated principal–agent issues (Jensen 2002; Jensen and Meckling 1976).

3.3.2 Early Signposts & Conceptual Anchors

These early signposts pointed to issues of ethical leadership failures. The work of Trevino (1986), Brown and Treviño (2006), and Ardichvili and Jondle (2009b) among others were instrumental in creating a view of the financial crisis that focused my attention on initial themes around ethics, leadership ethics and ethical cultures. As the financial crisis began to take hold, it became apparent that the issues central to the financial crisis were shrouded in opacity and narratives aimed at obfuscating the facts – the financial crisis was the result of regulatory failure was a narrative that just didn’t stack up. The initial raw data whilst identifying regulatory issues as contributory, indicated that the financial crisis was not solely the result of regulatory failures. Some of the more critical perspectives looked at how banking institutions viewed risk, took risks and denied taking risks when the negative impact became public knowledge. Characteristics such as excessive pride, arrogance, denial, rationalization, cognitive capture, and hubris were attributed to many banking institutions in countries most directly impacted by the financial crisis. This pointed the research is a slightly different direction. It not became apparent that human cognition and behavior were
predicated on a somewhat distorted view of one’s abilities. The work of Brown (1997), Furnham (2010), and Stein (2000, 2003, 2004, 2007) provided very real and tangible links to what was emerging from analysis of the financial crisis and what might have appeared to be very dysfunctional behavior at multiple levels. Narcissistic dispositions / characteristics emerged as though they may be central why banking institutions engaged in the behaviors that ultimately contributed to the greatest economic and financial crisis since the Great Depression. Without the benefit of these initial themes and concepts, arriving at how cognitive appraisals contributed to risk perception in banking institutions may never have emerged.

3.4 Addressing Ethical Concerns

Sensitive research topics are emotive and can result in societal judgments from those looking in [outsiders – context unaware] and a reluctance to engage in dialogue and discussion from those looking out [insiders - context aware]. Sensitive research predominantly involves people and their behavior, therefore social science researchers need to be cognizant of the human issues associated with any type of sensitive research – paramount in these concerns are the ethical issues. Organizational failures represent the perceived inability of individuals or groups to effectively do their jobs (Shrivastava 1988; Shrivastava et al. 1988; Turner 1994; Vaughan 1999) and as such, may cast a negative reflection on anyone implicated in the organization’s failure. Even if researchers are equipped with robust consent forms and assurances of anonymity for potential respondents, researchers are still responsible for recognizing whether or not the participants are mentally equipped to participate in the research (Alison et al. 2001; Sieber and Stanley 1988). These challenges are further complicated when dealing with participants who may be “seduced” by the interview process to disclose “something they may later regret” (Dickson-Swift et al. 2007: 331) or may simply
be “shocked and traumatized” so much so that their responses are likely to be “emotionally charged” (Buchanan and Denyer 2013: 216).

These issues have serious ethical implications for any social science researcher. Consequently, the importance of utilizing qualitative research methods that can uncover the richness and detailed descriptions of context-specific organizational actions and behaviors [or misbehavior] is often overshadowed by the difficulty in getting participants to disclose that which may be self-incriminating or organizationally damaging (Alison et al. 2001; Gephart 2004; Webb and Weick 1979). The real challenge then for any social science researcher engaged in researching sensitive organizational topics is how to get close to the data [and respondents] without having to traverse the ethics minefield, manage participant exposure and/or grapple with organizational or legal intervention. The challenge is how to achieve what might be considered ‘engaged disengagement’.

The use of Computer-Assisted Qualitative Data Analysis Software [CAQDAS] such as NVivo has the capacity to uncover more than structured and semi-structured interviews might when dealing with “sensitive and difficult-to-study organizational issues” (Alison et al. 2001: 242). Our research utilized NVivo to analyze eyewitness transcripts from the US and the UK financial crisis public inquiries as well as over 200 hours of public inquiry video evidence as well as approximately 150 hours of audio evidence, a job that would historically have required a team of researchers to analyze the data. CAQDAS also had the potential to aid in the development of new theories owing to its sophisticated analysis capabilities. NVivo also reduced interviewer contact thus potentially minimizing contamination of the environment which allowed for the discovery of categories, themes, meanings and patterns in their natural state (Czarniawska 1997). This allowed the researcher to be a ‘virtual’ complete observer without the ethical implications.
This ‘virtual’ complete observer approach facilitates the interpretation of how concepts are operative in the data (Bazeley and Jackson 2013) without influencing participant responses or exposing participants to undue pressures thus bypassing potential ethical issues associated with asking the right question without compromising the respondents sense of what is right or wrong. Buchanan and Denyer (2013) argue that researchers need to consider novel approaches to getting truthful responses from respondents by utilizing what is accessible rather than developing intricate strategies to gain trust and honesty. When dealing with sensitive organizational issues, developing a relationship based on trust in order to elicit key information from respondents is at best questionably ethical. Gaining trust while cognizant of the research objectives is perhaps one of the greatest challenges for sensitive topic researchers. By utilizing public inquiries to provide native accounts of witnesses central to organizational crises or disasters researchers can minimize contact reducing the ethical concerns other researchers face when in the field (Dickson-Swift et al. 2007). NVivo allowed for the disassembly and reassembly of large text samples into more manageable and meaningful key passages which could them be expanded and linked through sophisticated analysis features into more conceptually meaningful reflections of the hidden narratives often missed when researchers are focused too much on the ethical issues associated with sensitive research.

Accessing the sworn testimony of public inquiry witnesses enabled us to minimize the ethical quagmire associated with conducting sensitive research and its potential consequences or implications as a direct result of the interview process. Consequently, the interviews conducted by various public inquiry committees and commissions that sought to uncover the “truth and hard facts” about what caused the [financial] crisis (FCIC Hearing 2010b: 3) was considered a non-issue for the purposes of this research as the purpose of this inquiry was not to determine the causal relationships but to seek new insight into the phenomena that was the
global financial crisis. Lee (2000: 57) argued that people who do not know they are being studied “do not change their behavior” however; studying people “without their consent” violates ethical standards one expects from qualitative research. This is a critical concern that all qualitative research needs to be cognizant of. Notwithstanding Lee’s cogent argument, when utilizing public inquiry hearings that are being televised, the ethical concerns regarding personal autonomy are deemed neutral. The televising and public availability of audio transcripts allowed this research to be conducted as a ‘virtual’ complete observer. Confidentiality and anonymity in the case of both the UK and the US public inquiries was deemed less important than uncovering root causes and any potential learning opportunities to minimize any recurrence (US Senate Report 2010).

3.5 Exploring Primary and Secondary Sources

What constitutes primary and secondary sources of data is somewhat contested in the literature and this can lead to novice researchers dismissing a particular source of data because the researcher is unsure as to what constitutes primary and secondary sources. Easterby-Smith et al. (2008: 11) define primary data as that which is collected “directly by the researcher”. Maylor and Blackmon (2005: 172) provide a similar definition but go further to delineate between primary and secondary sources stating:

“....primary data are data you have collected yourself specifically for your project and secondary data are data other people have collected for their own research projects or commercial purposes”

Within the academic research literature, Buchanan and Denyer (2013: 212) contend that although investigation and [public] inquiry reports may be “grey literature” they can be considered “proxy research” as they provide explanations about “conditions contributing to particular incidents” and have “methodological significance as primary and secondary data”.

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Additionally, the use of internal organizational documentation such as emails, presentations and memos serve to anchor reflections of organizational behavior as spatially and temporally bounded records – free from witness recall bias. Researchers such as Brown (2005), Gephart (Gephart 1993, 1997, 2004), and Perrow (1999) have utilized public inquiries and first-hand accounts of disasters as both primary and secondary sources. Further complicating the issue of what constitutes primary and secondary sources is the definition proposed by Handlin, Schlesinger, Morison, Merk, Schlesinger Jr. and Buck 1970 (cited in Goodman and Kruger 1988: 315):

“Primary sources are first hand testimony about an historical event; secondary sources are descriptions of the event derived from and based upon primary sources. The primary source represents the view of the eye witness, the secondary source the view of the journalist or scholar who comes along later and tries to reconstruct the story”

We consider public inquiry audio, video and eyewitness transcripts to be an exceptionally valuable and rich source of data that are often overlooked by management or organizational behavior scholars as perhaps the best proxy source of primary and secondary data (Buchanan and Denyer 2013; Gephart 1993). Although Saunders et al. (2003: 188-189) argue that researchers rarely consider the ‘possibility of reanalyzing data [which they refer to as secondary data] that have already been collected for some other purpose’ we accept this assertion with the following caveat.

Whilst most raw data does fall into the definition provided by Saunders et al. (2003) we consider public inquiry hearings a form of data that reflects eyewitness accounts (Goodman and Kruger 1988) and should therefore be considered and categorized as proxy primary source data as it is free from researcher bias, interpretation and addresses the aim and objectives of this research. Historically, social science scholars have overlooked this type of
data source perhaps in part because it was collected for a different purpose by someone else as argued convincingly by Saunders et al. (2003) and in part because of an inability to see beyond the “noise” or the “amortization” issue raised by Webb and Weick (1979: 652). One could argue then that social science scholars have a responsibility to utilize any empirical data source that can potentially illuminate antecedent conditions that might lead to dark side behaviors. The valuable insight that is to be gained from analyzing publicly available data that includes for example: public inquiry transcripts, audio and video interviews, as well as company reports (e.g. Brown 2005; Chatterjee and Hambrick 2007; Gephart 1993) is succinctly illuminated by Poland and Pederson (cited in Morison and Macleod 2013: 2) who argued “what is not said may be as revealing as what is said, particularly since what is left out ordinarily far exceeds with is put in”.

Common reasons why social science researchers decide against exploring sensitive research topics are highlighted by Alison et al. (2001), who argued that the selection of appropriate methodologies that facilitate academic rigor is quite limited, especially when the data being analyzed are not considered primary data, that is, the data was generated for a different purpose by another researcher. Webb and Weick (1979: 652) however, argue that “proponents of unobtrusive methods believe in amortization” in that no matter how and for what purpose the data was collected – it has more than one use. Indeed, Lee (2000: 9) argued convincingly that data obtained “opportunistically should not be seen as inherently inferior to data designed for a particular purpose”. This is something that novice researchers who have limited research exposure and experience should consider when grappling with what constitutes acceptable primary and secondary sources of data.

The availability of data sources that might be considered novel, unorthodox or outside of mainstream sources provides novice researchers with a multitude of perspectives with which they can address their research questions, aims and objectives. Armed with an expanding
array of qualitative tools and methods, sensitive research topics no longer remain only within the reach of the most ardent and determined research scholars. The use of CAQDAS [NVivo] used in conjunction with Content Analysis [CA] frameworks offers a level of sophistication that addresses the weaknesses in respect of reliability and validity often associated with qualitative research. We make the distinction between both CA and CAQDAS in that CA offers a framework intended to serve the purposes:

“Its prescriptive purpose is to guide the conceptualization and design of practical content analytic research; its analytical purpose is to facilitate the critical examination and comparison of the published content analyses; and its methodological purpose is to point to performance criteria and precautionary standards that researcher can apply in evaluating ongoing content analyses”

(Krippendorff, 2004: 29)

CAQDAS offers “tools to mechanize tasks of ordering and archiving texts, and represents software for data administration and archiving” rather than “tools for data analysis” (Czarniawska 2008: 285) and this distinction is critical. CA is the replicable framework under which CAQDAS operates in providing computerized ‘assistance’ to work through large volumes of data in a systematic and structured manner. A distinction also alluded by Lee (2000: 106) who argued that “software tools” could aid in the “analysis of textual” data. This distinction is important as it highlights the subtle difference between both CA and CAQDAS. Social science scholars who have obtained data in its natural state [i.e. public inquiries / publically available organizational documents] can objectively analyze audio and video archival evidence knowing that they have not injected themselves into the interviewer/interviewee dynamic (Webb1966) thus has not impacted on the outcome.
Although there may be nothing that forbids research on sensitive issues there is the very real possibility that because the issues under investigation are considered sensitive or potentially damaging to individuals within the organization, “powerful forces” may be “working against the conduct of such research” (Sieber and Stanley 1988: 49). As we found from our own experience, obtaining access to participants [bank officials/finance professionals/state agencies] willing to talk on the record proved somewhat fruitless. Indeed, in our endeavors to secure transcripts of interviews carried out by “publically funded consultants” exploring the Irish banking crisis, we were informed by an Irish state agency that:

“...the [Irish banking crisis] report was externally-commissioned with the Department receiving only the final report, for that reason, we do not hold interview transcripts or other preparation material relating to this report...[the external consultants] were similarly not required to retain any such records following the publication of their report.”

(State Department)

This is a stark illustration of what Sieber and Stanley (1998) refer to as powerful forces working against the pursuit of sensitive research topics. It is something that we as researchers experienced first-hand and was acutely aware of throughout the entire research project.

3.6 Utilizing Content Analysis for Sensitive Research Topics

Content Analysis provides an alternative means of conducting qualitative research in business and management research (Bryman and Bell 2007). Although, primarily a qualitative methodology, CA also includes quantitative features which potentially provide advantages over ‘purely qualitative methods such as literary interpretation and hermeneutics’ (Aguinis et al. 2009: 76). Krippendorff (2004: 18) defines CA as a “research technique for making replicable and valid inferences from texts (or other meaningful matter) to the context of their
use”. Duriau et al (Berg 2009: 364) also makes a similar observation, they contend that “content analysis in non-intrusive and does not suffer from researcher demand bias”. Content analysis, according to Berg (2007: 7) is:

“….the careful, detailed, systematic examination and interpretation of a particular body of material in an effort to identify patterns, themes, biases and meanings….it is primarily a coding operation and data interpreting process”

CA has the ability to focus on either quantitative or qualitative features of the material being researched. This has resulted in the use of CA as an accepted research methodology. Once the challenge of sourcing the sensitive data central to the inquiry has been addressed, the next issue researchers on sensitive organizational issues face are how to analyze the data. Although Krippendorff (2004) identifies texts as a data source, the content can include video, audio, signs, symbols, artifacts or even numerical data. CA offers a number of benefits to social science researchers exploring sensitive management or organizational issues. CA can provide a replicable methodology to access deep individual or organizational structures such as cultures, cognitions values and attitudes and provide “insights into managerial cognitions which surveys or interviews cannot provide” at the same level of detail (Pollach 2012: 263). Moreover, there are theoretical benefits to be derived as Sonpar and Golden-Biddle (2008: 797) contend - CA has the potential to elaborate and develop “adolescent theories” by linking disparate concepts and themes that allow for an underdeveloped theory to be progressed.

While there are many benefits to utilizing CA for sensitive research, researchers must remain cognizant that while there is an abundance of available data this is no guarantee that data are reliable. To that end, Bryman and Bell (2007) citing Scott (1990), suggest the following should be considered when assessing the quality of documentary evidence as primary and secondary sources of data:
• **Authenticity** – are the data genuine and of unquestionable origin?
• **Credibility** - is the evidence free from error and distortion?
• **Representativeness** - Is the evidence typical of its kind, and, if not, is the extent of its untypicality known?
• **Meaning** – is the evidence clear and comprehensible?

In our sensitive research, we utilized the reliability of CA to explore public inquiry data units such as: audio, video, interview transcripts, internal organizational documentation [e.g. emails, presentations and memos] and publically available data such as financial reports which allowed for a systematic evaluation and categorization of the data (Chanchai 2011; Krippendorff 2004). The structured approach of CA allowed for the construction of text into categories [concepts/themes] based on explicitly defined coding rules (Miles and Huberman 1994; Pollach 2012) and did so by utilizing nonreactive data that allowed for multiple interpretations considering alternative voices, diverse perspectives and oppositional readings (Krippendorff 2004: 88). This was particularly useful in our research, as we needed to interpret the data from multiple ideological perspectives. Accordingly, the context of the phenomenon, availability of reliable data and sensitive nature of the research topic determined our choice of methodology.

While we experienced access issues in respect of Irish banking institutions and government agencies consistent with the literature on sensitive research topics, unrestricted access to public inquiry testimony from the US and the UK hearings proved an exceptionally rich data source. The difficulty in gaining access to organizations willing to participate and provide *truthful* answers to probing questions can limit the researcher’s pursuit of objectives; as such, CA has become an accepted research methodology (Alison et al. 2001; Jehn and Jonsen 2010) that can effectively and robustly aid in the exploration of sensitive research topics.

In his textual analysis of risk and blame in disaster sensemaking, Gephart (1993: 1466) cited the use of newspaper articles and government documents as a source of rich data in
describing organizational events at a level of detail not otherwise available’. Duriau et al.
(2007: 5) also noted that the growing acceptance of CA as a research methodology in
business and management research derives from the need to “explore many important but
difficult-to-study issues of management research”. The use of CA therefore provides for a
replicable methodology in accessing, analyzing and understanding individual or collective
dimensions such as “values, intentions, attitudes and cognitions” whilst also adhering to
methodological rigor, reliability and validity requirements (Duriau et al. 2007: 6;
Krippendorff 2004: 109). Krippendorff (2004) provides a number of CA frameworks that
may assist content analysts in ensuring their methods are replicable, empirically sound and
systematic in their approach to data analysis. As the CA components illustrates it is a very
structured and systematic approach to analyzing available data in pursuit of the research
agenda.

3.7 Content Analysis Components

- **Unitizing** – various types of ‘content’ which may inform the research [e.g. text, video, audio].
- **Sampling** - economizing of data into manageable statistically/conceptually representative data such as text paragraphs, sound bytes [audio], and video clips
- **Recording/Coding** – bridges the gap between the unitized data so that data can be coded/recoded over time
- **Reducing** – allows for the efficient representation of data, especially when dealing with very large volumes of data
- **Abductively inferring** – relates to deriving contextual phenomena from the data bridging the gap between descriptive accounts, what they mean, entail or provoke
- **Narrating** – makes comprehensible what the researcher has inferred from the research. This is perhaps the most important aspect of the CA in that the researcher may need to explain the practical significance of their contribution to the literature

Although the above components illustrate a useable framework [see figure 3.1] for novice
content analysts, Krippendorff (see pp. 81-96) provides a number of variants that offer a more
simplified approach for those familiar with CA. We utilized the CA components identified by
Krippendorff and derived our own process based Qualitative Content Analytic Framework (see Figure 3.2). Our QCAF provided a systematic and iterative process based method by which we could analyze utilizing the sophistication of CAQDAS to interpret and develop concepts unique to our own investigation. Indeed, we utilized this framework throughout the entire research project to ensure consistency and validity in the themes and concepts we derived from our data. Our QCAF was based on three distinct elements or phases [see Organizing the Data 3.11] that allowed for a replicable and systematic approach the research.

3.7.1 Sampling & Consistency Check Plan

Once the literature review had been conducted, theories identified and potential lacunae spotted, the ‘real’ process of research began. This phase of the research was perhaps the most daunting and difficult of all. One of the challenges that face researchers regardless of philosophical bent is whether or not the data is reliable and whether that data is representative of the phenomena under investigation. Whilst the reliability of the data was generally not in question given that it was derived largely from first-hand accounts of witnesses central to the financial crisis, there were legitimate concerns that the size of the task at hand might result in unreliable data ‘creeping’ in with the reliable data. A critical issue in this phase of content analytic research is highlighted by Krippendorff (2009: 350) who argued that fatigue can set in with coders who may get “tired, becoming inattentive to important details” which can result in researcher reaching “mistaken conclusions about the phenomena” being explored. One of the ways in which we minimized the potential of fatigue setting in was to employ a sampling consistency check at this phase of the research.

The selections of only witnesses that were in a decision-making position or were implicated in the decision-making processes were included as reliable primary data sources. Anyone who did not fulfill these criteria was removed from the primary data list and move to a secondary or tertiary data source. This process ensured that only those with appropriate
knowledge, awareness and exposure to the phenomena being explored were included so it was highly improbable that someone not meeting these criteria would be included as primary data. Another method we employed at this stage was to develop initial codes around a number of general themes and utilizing CAQDAS we were able to determine the frequency [for consistency checking purposes only] of certain words associated with the initial themes we had derived. Once we were comfortable that the mini-process in the input phase was consistent, we moved on to the ‘process’ phase; however, if any new reliable primary data sources emerged during the research we could utilize the input phase with ease and expediency.

3.7.2 Analytic Memo & Coding

During this phase of the research, we began to get into the get stuck into the data and in doing so began to develop inner dialogue about what it was we were finding in the data. Bazeley & Jackson (2013: 36) refer to this as having a ‘kind of discussion with yourself’. The utility of this type of time-stamp reflection is that it allows you to capture thoughts, observations and impressions that both provide a data anchor that can be easily searched using CAQDAS but more importantly, it imprints a cognitive anchor in which you can quickly recall or what Saldana (2012: 32) eloquently argued “triggered a written reflection on the deeper and complex meaning it invoked”. The volume of Video and Audio evidence collected by the various public inquiries meant that narratives could be viewed and reviewed numerous times and memos could be attributed to particular aspects of the conversations that might have been previously overlooked. This was understandably a regular occurrence given the number of interviews, and hours required to sit and watch them.

Memo writing or ‘brain dumping’ was critical when analyzing the audio interviews conducted by FCIC investigators, as no transcripts were available and every syllable was transcribed in the hopes of uncovering a diamond in the rough. This painstaking approach
paid dividends in respect of the audio interviews of two witnesses’ interviewees in particular – Sabbath Siddique and Susan Bies [an extract of Siddique’s interview is shown below]. By utilizing brain dumps the researcher was freed from the academic rigor required of the research; this allowed for intellectual freestyling without limitations within a haze of creative activity, unencumbered by the requirement to provide evidence of causality, corroboration or critique. Logic does not form part of memo writing or brain dumps, as it is the playground of intuitive leaps and insights to which only the person writing the memo has access. Memo codes and brain dumps are about reflection and it is through this reflection that we were able to perform the reality checks when compared against the cognitive processes that derived the concepts and themes.

3.7.3 Inferring & Conversation Contribution

In this phase of the QCAF framework we were able to reflect on how the links, connections and flows between the various codes, concepts, themes and categories derived from the data. We were able to visualize the narratives and how they formed distinct patterns in the minds of the witnesses. The narrative enabled a reflective process that facilitated delving into this particular sensitive research topic of dark side behaviors and relate it to an emergent theory [institutional narcissism] as well as existing theories such as Cognitive Appraisal Theory. The outcome dimension of the QCAF helped to highlight the potential contribution of the exploratory study to both existing and future research. The real benefit of utilizing the QCAF framework is that it captures the research from inception [pre-sampling phase], to theory expansion / generation. This phase is the potential to contribute to the ongoing conversation.
Figure 3.1: Components of Content Analysis

Source: Krippendorff 2004, p. 86
**Figure 3.2:** Qualitative Content Analytic Framework

```
Data

Input
- Purposive Sampling
- Sampling Consistency Check

Process
- Brain Dumps / 'Field Notes'
- Analytic Consistency Check

Outcome
- Inferring Sensitive Phenomenon
- Narration

Theories about Phenomenon / Context

Sampling & Consistency Check Plan

Analytic Memos / Coding

Research Aims / Objectives Addressed

```
Whilst no research method is without some fault, utilizing CA with CAQDAS over other methods such as structured, semi-structured interviews or questionnaires does have a number of advantages. Researchers engaged in sensitive research face a number of obstacles that must be overcome, for example researcher(s) must ensure that (s)he builds a level of trust and rapport with the participant such that (s)he feels it is a safe environment in which to disclose/open up to the researcher (Dickson-Swift et al. 2007). Aside from the challenges researchers face in gaining the trust of the participants, they also run the risk of becoming “desensitized” (p.338) if they have been exposed to prolonged periods of sensitive research. This desensitizing effect can paradoxically reduce objectivity wherein the researcher see only similar patterns and concepts in the context of the research, which may reduce the researchers ability to see connections due to insensitivity bias.

Another issue that qualitative researchers engaged in sensitive research face is that of participant resistance. This occurs when the participants actively engage in evasive behavior when dealing with topics that are sensitive or uncomfortable. In this environment, the participants’ limited responses may act as “noise that veils or masks their inability or unwillingness” to engage with the researcher leading to incomplete or inaccurate analysis and findings (Morison and Macleod 2013: 15). The limitations of questionnaires and interviews have best been articulated by Webb et al. (1966: 174) whose criticism was not of the questionnaires or interviews per se but the tradition that allowed them to become a “methodological sanctuary” to which the “myopia of operational definitionalism permitted a retread”. That said CA is not without its limitations. CA is only as good as the data on which the research is based. With public inquiries there is an abundance of sources and types [units] of data that provide multiple perspectives and narratives; however, if the researcher focuses too much on written reports or organizational documents, then there is both a bias on the part of those who generated the reports [selection of what to include/not include] or in the case of
organizational documents the potential for an idealized view of the organization. Another issue is centered on coding and specifically the interpretation of the data. Each researcher will have a difference worldview and may interpret the data in slightly different ways. This is less of an issue when the researcher is working alone; however, can present problems for those working on team projects, especially if those teams are internationally based.

3.8 Narrative Inquiry: Eavesdropping on the Conversation

The financial crisis was an event so rare that it has been likened to the Great Depression of the late 1920’s and early 1930’s and so impactful has it been that it has been coined the *Great Recession* by the IMF (Stiglitz 2010). Indeed, this financial crisis is not only rare but paradoxical - it is unlike *all* other financial crises that have gone before it but at the same time, it is *exactly* like all other financial crises that have gone before it (Krugman 2008; Reinhart and Rogoff 2009; Roubini and Mihm 2011). As Barth et al. (2012: 6) cogently argue although no “one ideology” accounts for the failure of the global financial system – “ideologies matter” in that they were responsible for destabilizing financial systems throughout the world. This poses an interesting conundrum: if no one ideology was responsible for the financial crisis, then what unifies the conversation. In other words, what narrative illuminates the collective [dark side] actions of poor decision-making and excessive risk-taking behavior? More importantly, how do we best understand this extremely rare, yet not rare event? These collective *human* actions can best be understood by placing them in the narrative in which they occurred and preserving [as best we can] the chronology in which they formed. Those collective actions often emerge from an “organizational or institutional narrative” (Czarniawska 1997: 6) making it a socially legitimized conversation in which the narrator reflects the “quasi-language” (Tett 2009c: 6) that may have permeated and infused into the social consciousness of multiple organizational and institutional actors.
The narrative approach to exploring the financial crisis allowed for “retrospective meaning making” (Chase 2005: 656) which provided a glimpse of how individuals’, organizations’ and institutions’ actions could be connected into a meaningful whole that described those actions and consequences within a quilt of conscious and subconscious cognitions and emotions. Narrative inquiry therefore is a very useful approach in creating a Technicolor representation of sequences and events as “told by the narrator [participant], to enrich understanding and aid analysis” (Saunders et al. 2012: 188). The financial crisis public inquiries provided a stage on which personal narratives of those considered central actors in the financial crisis presented “fuller pictures” (Laslett 1999: 391) to which they ascribed meaning for their actions. Narratives are exceptionally important in understanding how verbal actions are central to developing and socially constructing reality – in essence, they provide the glimpses into how narrators “explain, complain, defend, confirm and challenge the status quo” (Chase 2005: 657).

3.8.1 Boiling the Ocean or Going on a Fishing Expedition?

Arguably, trying to uncloak antecedent conditions that can lead to the emergence of dark side organizational behaviors is a difficult task. As a researcher, one can either look everywhere and at everything of interest to the research topic or one can be more judicious in how the search is initiated – focusing instead on ‘efficiency and empirical grounding’ (Krippendorff 2004: 32). Attempting to uncover valuable nuggets by exploring every aspect of the financial crisis would have been an exercise in futility akin to boiling the Ocean. Instead, a more nuanced approach was to go on a fishing expedition. Equipped with the Research Aim it allowed for the reading of text with purpose, that is specific texts were to be analyzed for specific concepts / themes. Initial research exploring the financial crisis focused heavily on excessive risk-taking, poor decision-making, extreme forms of hubris and institutional failures within the financial services sector (e.g. Haiss 2010; Power 2009; Rötheli 2010; Tett
These initial insights enabled a very focused review of the literature specific to these initial findings so that general themes could serve as conceptual / abstract anchors. For example, much of the initial financial crisis literature made reference to ‘institutional failures’ (FCIC Report 2011: xviii; Honohan 2010b: 42; Treasury Select Committee 2010: 281 Q.2166) and it is these ‘institutional failures’ that framed out the research initially looked at decisions were made within those institutional frameworks; how the narrative was legitimized in one organizational setting and how that narrative appeared among other organizations within that institutional arrangement.

As a result of these early focused approaches – initial themes emerged regarding how risk-perception and risk-propensity choices were narrowed and alternative approaches to problem framing and decision-making were considered contrarian to the idealized worldview. A number of articles (e.g. Barsade 2002; Chatterjee and Hambrick 2007; Haiss 2010; Moshirian 2011; Munir 2011; Paulhus and Williams 2002; Power 2009; Scott 2008b; Shiller 2005; Shrivastava et al. 1988; Stein 2000; Stein 2003, 2007, 2011; Tett 2009c; Vaughan 1999) proved exceptionally useful in providing a theoretical/empirical framework for early themes which then allowed for a more detailed exploration of the narrative or stories that tied together the behaviors considered to be dark side.

3.8.2 Seasoning the Fish

The financial crisis provided the perfect backdrop in which actors narrated their construction and existence within the environment (Berger and Luckmann 1966) to which they were cognitively and emotionally tethered. In this environment, the previous extended period of economic expansion constructed a reality wherein the belief was that downside risk irrelevant because things had always been good. This belief contributed to the development of a positive narrative that extended beyond financial institutions and discouraged alternative
constructions of reality or deviations from institutionally accepted patterns of cognition and behavior.

Czarniawska (1997: 63) cogently argued that the “process of construction” or narrative was more interesting than the constructs themselves – meaning and understanding emerges over time. To aid in this process, Czarniawska’s narrative making model [see Figure 3.3] provided a visual with which to refer to during the narrative making stages. One simply cannot take the actions or superficial constructs that define them without considering the context in which the phenomenon occurred. To that end, a narrative approach to exploring the dark side behaviors of the financial crisis enables the researcher to go on an historical journey of discovery in understanding multiple actors narrate their own stories anchored in the context in which they occurred. Armed with the initial themes, the pieces of the puzzle began to fit into place. The narrative approach was instrumental in linking initial themes from extant literature with the emerging similar ‘stories’ being told in financial and government institutions in multiple regions. Perhaps the most profound benefit of marrying the early fishing expedition with the developing narrative was that I as a research could appear both central to, and detached from the stories being told. As a researcher, I could eavesdrop on the conversation without impacting on the narrative. A critical benefit of employing a narrative inquiry approach was the ability to explore the narrative from multiple perspectives utilizing multiple voices – this allowed us to compare and “triangulate” (Saunders et al. 2012: 188) the contrasting narratives of the narrators. Crucially, when faced with an extreme event such as the financial crisis, narratives of narrators who feel they may be exposed reflect a story that may be different from the actual events that occurred, therefore diverse perspective and alternative voices aid in the deconstruction and reconstruction of the story. Utilizing multiple sources of narrative [audio, video, transcripts and official reports] minimizes the paradox associated with utilizing only one source of narrative such as official reports. Boudes and Laroche (2009: 393)
cautioned that official reports have the potential to “rely on standard world views in which there is little place for ambiguity” – one reason why multiple sources should form the basis on any narrative inquiry.

**Figure 3.3**: Narrative Making

**Fields of Practice**

- Watch how the stories are being made
- Collect the stories
  - Provoke story telling
    - Interpret the stories (what do they say?)
    - Analyze the stories (how do they say it?)
    - Deconstruct the stories (unmask them)
    - Put together your own story
    - Set it against/together with other stories

**Source**: Czarniawska (2004: 15)

### 3.8.3 Window Shopping Physical Displays of Emotion

The unobtrusive approach to understanding organizational and institutional failures such as use of public inquiry data has become an accepted method of delving into the behaviors of individuals, organizations and institutions in an effort to uncover the what, how, who and why of these failures – especially when dealing with sensitive issues. Whilst the significant contribution of scholars such as Brown (2000, 2004), Gephart (1984, 1993), Vaughan (1990, 1999), and Weick (1990, 1993) has been instrumental in illuminating the importance of utilizing public inquiry data to uncover organizational disasters and failures, there has been limited attention paid to how physical displays of emotions of the various witnesses called to testify at those public inquiries was captured. Gephart (1993) made use of ‘field notes’ to
describe what the witnesses were saying, yet did not elaborate specifically on the physical manifestations of the emotional toll appearing in a public inquiry setting was taking on the witnesses or the defensive postures that they may have exhibited when answering a particularly challenging question. Similarly, Vaughan (1999: 292) who explored the failure of the Challenger Space Shuttle in 1986 recognized that “disasters were a type of routine nonconformity” that unquestionably reflected a “physical, cultural and emotional event incurring social loss” yet did not incorporate displays of emotion from the televised Rogers Commission Inquiry.

Notwithstanding the foci of these scholars, the importance of capturing physical displays of behavior and emotion should not be understated. Arguably, capturing the physical manifestation of discrete emotions such as anger salient representations how an individual feels when having to deal with being questioned about their behavior, and these physical displays appear more acute when the outcomes of their behavior under investigation are of a sensitive nature. Visually capturing these displays of emotion whilst ‘vital for any fieldwork’ (Miles et al. 2014: 98) was even more important in the context of this research. Whilst we utilized the various public inquiry commissioners such as Senator Carl Levin [US PSI Chairman] and Phil Angelides [FCIC Chairman] to act as proxies to provoke storytelling among the various witnesses called to testify, they also served to provoke discrete emotions among the witnesses such as Lloyd C. Blankfein [Goldman Sachs], James ‘Jamie’ Dimon [JP Morgan], Richard ‘Dick’ Fuld, Jr. [Lehman Brothers] and Michael Swenson [former employee of Goldman Sachs]. In all of these examples, the witnesses displayed various discrete emotions when asked to account for their behavior in relation to aspects of their business practices prior to the financial crisis. In particular, Michael Swenson displayed quite aggressive and dismissive behavior under examination by Dr. Coburn [see example Field Note memo 3.8.4].
Another example of an individual who exhibited various discrete emotions and different physical reactions was Daniel ‘Dan’ Sparks of Goldman Sachs. Sparks displayed both shame with a resultant physical representation of folding his right arm into his chest in an open gesture as if to offer some degree of contrition and yet on another occasion, purposefully and somewhat aggressively leaned into the microphone with one shoulder slightly forward making himself appear larger than he was in a dominant power position. These physical displays of emotion capture body language that cannot be observed if one relies solely on transcript documentation. We found the ability to view and review the video from the public inquiries an incredibly valuable form of observing emotional responses of witnesses, as they had to recall what led to their poor decision-making behavior.

3.8.4 Field Notes Capturing Physical Displays of Emotion

The following Field Notes were captured whilst viewing the various public inquiry hearings and reflect what Miles et al. (2014: 99) and Saldana (2009) refer to a ‘prioritizing memoing’ – that is writing the memos without paying attention to the prose, grammar or whether or not what is being written makes any sense out of context.

…….Senator Carl Levin in describing the near collapse of the US financial system offers a somewhat detached, yet no less passionate insight into the impact of the ‘behavior’ of many banking institutions citing ‘behind every number are American families’…[interestingly – whilst dispassionate, he looks up from his prepared statement and looks directly at the investment bankers present at the hearing as if to visually condemn those responsible]…..

…….Uses very colorful language to convey the complexity of opaque financial products as merely a ‘pollutant’ poisoning the economy…..
……‘La – la land of ledger entries’ – very descriptive and derisive definition of Synthetic CDO’s offered by Ms Claire McCaskill [Missouri] – exhibiting some degree of annoyance with the smugness and desire of the financial industry [in particular GS] to pull the wool over the eyes of the general public….Head tilted sideways in leaning into the microphone in such a manner as to almost ‘scold’ the GS executives present at the hearing…. Turning up the heat now by referring to the Synthetic CDO’s as ‘pure and simple raw gambling’……referring to GS as the ‘booky’ and the ‘house’ – very emotive descriptions of what GS were ‘less oversight that a pitboss in Las Vegas’ – incredibly colorful language but I wonder how much was frustration and anger and how much was the Theatre of the Senate

…..Referred to the financial institution executives as ‘lemming like’ more concered about a bad article in the Wall Street Journal that a regulator – framing what really matter [as far as she was concerned] to Wall Street banks was perception and how the market and other ‘elite actors’ would perceive this ‘institution’ – the anger is palpable in her opening statement.

…..Levin in examination of Dan Sparks [Goldman Sachs] - Discussing the ‘Timberwolf’ [$600 million dollar] deal illuminating what Spark’s sales team at GS were saying about Timberwolf – they described it as “Boy, that Timberwolf was one shitty deal” it is evident that Senator Levin is experiencing a high degree of negative emotion as a result of Dan Sparks ‘cool demeanor’. Indeed, it is Sparks inference that Senator Levin was unaware of the ‘context’ arguing in a somewhat antagonistic manner “Context……some context might be helpful” implying therefore that Senator Levin did not understand why the decisions surrounding the ‘Timberwolf’ CDO were made. This exchange between these two parties provides some insight into how Sparks withdrew into the ‘safety’ of the contextual factors that facilitated the decision to sell a financial product that GS knew to be effectively worthless……at this point in the exchange, Senator Levin [who was not context aware but rather context unaware
as far as Sparks was concerned] retorted “Let me tell you, the context is might clear” at this point, the anger felt by Levin is quite obvious with extensive use of ‘finger pointing’ at Sparks…….

……At this point in the exchange – Sparks returns to the ‘safety’ of the contextual factors that facilitated the cognitive appraisals of decision-making at that time – the physical manifestation of the emotions Sparks displayed reflected a degree of ‘contrition’ [“my performance on that deal wasn’t good”] but also paradoxically, an air of ‘contempt’ directed at Senator Levin for asking question about which he clearly ‘did not understand the context’. Another physical manifestation very much suggested that he too was a victim as he appeared to feign sincerity by folding his right arm and moving it towards his heart as if to say ‘it’s a tragic situation but look – we’ve all been victims of this cruel market’……- when Senator Levin once again verbally attacks Sparks about his team’s knowledge about selling a “shitty deal” – Sparks takes a very ‘defensive’ position and leans a shoulder into the microphone almost baiting Senator Levin to becoming even more frustrated and angry…….

…..When it appears that Senator Levin is getting the upper hand in the argument, Sparks again infers he too [as is GS] a victim and that “he” didn’t try to sell anything and began to rely on as sense of identity affiliation with his ‘profession’ [which is perhaps why he appears somewhat unruffled and calm during the cross examination] and argued that the market will pay what the market is wiling to pay

……When Michael Swenson of GS is being quizzed by Dr. Tom Coburn about whether or not GS had a policy that precluded GS employees from discussing on electronic format anything that could potentially result in litigation Swenson became somewhat dismissive and moved away from the Microphone and commented that “it had been a long time since he had worked at GS so was unfamiliar with its policies”……when probed some more by Dr. Coburn, Swenson once again suggested
that “it was a while since he had worked at GS and couldn’t remember their policies”
– at this time Dr. Coburn suggested in a very calm tone that he found Swenson’s
answer to be “most unsatisfactory” and at this point in time, Swenson, clearly agitated
and contemptuous of the questioning physically turned ‘sideways’ as if to ‘dismiss’
both the questions being asked and Dr. Coburn’s attempt to get clarity on the topic.
This behavior whilst reflective of a discrete emotion such as anger is also indicative of
a narcissistic characteristic of triumphant contempt [dismissiveness of ones opinion as
irrelevant and not worthy of acknowledgement]…….

3.9 Navigating the Minefield of Sensitive Organizational Topics

Consistent with any approach to qualitative research we focused on design, data collection
and analysis (Webb and Weick 1979: 650). However we sought more innovative means of
achieving this. For us, data collection proceeded and drove the design & analysis, due in part
to the many obstacles we encountered. Our approach was very much dictated by whether or
not we could access reliable empirical data (Duriau et al. 2007; Krippendorff 2004) and how
innovative we were willing to be in order to analyze it (Buchanan and Denyer 2013). Figure
3.4 depicts the flow process through which decisions were made regarding the availability of
reliable and authentic data and how to source it.

3.10 Sample Strategy

In the initial stages of the research, we set about establishing which data we could reasonably
access and who [narrators] were best placed to provide the insight required to gain a deeper
understanding of the organizational realities that underscored the dark side behaviors evident
in many banking institutions. Accordingly, we obtained a representative selection that was
reflected “theoretically meaningful groups, or cultures” (Gephart 1993: 1479). We utilized
purposive or theoretical sampling (Miles and Huberman 1994; Stake 2005) which allowed us
to identify a representative sample of individuals who would have been able to provide
narratives of organizational / institutional realities that addressed the research aim and objectives. Although theoretical sampling is often associated with “Grounded Theory and analytic induction” (Saunders et al. 2012: 289) we found this approach invaluable given the emergent categories from the various coding iterations. There was a total pool of 292 potential witnesses. Utilizing purposive sampling, we excluded anyone who could not reasonably provide an authentic narrative consistent with understanding dark side behaviors. Consultants, academics and other professionals not fitting with this criterion were excluded although we did analyze the interviews of some non-eye witnesses if additional insight was required. The final purposive sample was 196.
Figure 3.4: Research Phase Flowchart

Phase 1 [P1] Informed by Current Theories

- Is data available?
  - Yes
  - No
- Are informants available?
  - Yes
  - No
- Consider alternative sources

Phase 2 [P2] Analysis Phase

- Is data retrievable?
  - Yes
  - Save for analysis
  - No
- Setup Interview Schedule
  - Yes
  - Interviews proceeding?
  - No
  - Consider alternative sources

Phase 3 [P3] Interpretation Phase

- Are informants available?
  - Yes
  - Interviews proceeding?
  - No
  - Consider alternative sources
- Generate ‘field notes’
  - Yes
  - Methodologically Robust?
  - No
  - Generate Data for Analysis
  - Yes
  - Research Aim & Objectives

- Reconsider research aims & objectives
- Revisit Provisional Codes form ‘lit review’
- Generate ’field notes’ with themes – check literature
- Condense themes into 5 – 6 primary categories
- Begin Expanded Analysis
- Generate Themes / Narrative around sensitive organizational topics
- Make a theoretical / empirical contribution

Research Aim & Objectives

Develop Categories / Themes from data

‘Consistency Check’ with Provisional Codes

Revise Provisional Codes form ‘lit review’

Integrate ’field notes’ with themes – check literature

Condense themes into 5 – 6 primary categories
The appeal of getting close to the actors central to the financial crisis without having to face issues surrounding probing questions, and “building rapport and establishing trust” with the participants (Bahn and Weatherill 2013; Jehn and Jonsen 2010: 314), meant we could spend significantly more time in the data analysis and interpretation phase of our research. Whilst there are legitimate concerns that the data we planned to gather, analyze and interpret was collected for a different purpose (Alison et al. 2001: 242) the potential benefits outweighed these issues. Concerns associated with our data being considered grey literature or being perceived in some communities of practice as lacking “closeness to the data” (Bazeley and Jackson 2013: 7) that could result in our alienation from the data also weighed heavily on our decision-making process. However, fears were minimized given that the public inquiry investigations were being conducted by seasoned investigators and addressed similar themes to the ones we were interested in, such as: why did people behave the way they did; why did organizations appear to engage in similar decision-making processes; in what way might emotions have impacted on decision-making.

Schütz 1973 (cited in Czarniawska 1997: 12) noted that one “cannot understand human intention when one is removed from the setting in which that intention makes sense”. To us, this observation reflected our desire to utilize any available and reliable data source that provided a native reflection of why excessive risk-taking and poor decision-making behaviors were commonly accepted in many banking institutions. Indeed, we pondered whether or not we would have elicited truthful and insightful responses from participants even if we had no access issues. Without the benefit of someone with legitimate authority to ensure a response from participants, sensitive research topics may be deemed too difficult to pursue. Ultimately, the public inquiry setting offered an excellent source of reliable empirical data.
When dealing with sensitive research topics, the truth often lies in what is not said rather than what is said. Given that extreme events such as the financial crisis are often sudden, unexpected and highly impactful, access can prove impossible so alternative sources of data are vitally important to the success of the research project. In what they refer to as “non-traditional data sources”, Buchanan and Denyer (2013: 216) cite the use of official government documents, archival records, interviews, commercially available video and news reports as important alternative data sources that provide not just “colorful descriptive accounts” but are “part of the causal fabric of the sequence of events under investigation”. These sources of data have a very real benefit for social science researchers concerned about costs and research completion times. Table 3.2a, 3.2b & 3.2c represent the various primary and secondary sources selected and utilized in this research inquiry. The availability of authentic, reliable and representative unobtrusive sources of primary and secondary data allowed for a much more comprehensive exploration of the narrative that underscored the dark side behaviors that played a central role in the financial crisis.
Table 3.2a: Actor Breakdown

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<th>Actor Type</th>
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* Audio & Video
** Audio only
*** Video only
Table 3.2b: Primary Data Sources

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*Denotes useable in the context of this paper

N.B. not all useable quotes were included in this manuscript

** Total number of quotes related to risk-taking & decision-making behavior
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<td>House of Commons Treasury Committee Reports on UK Banking Crisis</td>
<td>Banking Crisis: regulation and supervision</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td>May, 2010</td>
<td>Central Bank of Ireland</td>
<td>The Irish banking Crisis Regulatory and Financial Stability Policy 2003-2008</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
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<tr>
<td>May, 2010</td>
<td>Department of Finance</td>
<td>A Preliminary Report on The sources of Ireland’s Banking Crisis</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>January, 2011</td>
<td>Financial Crisis Inquiry Commission</td>
<td>The Financial Crisis Inquiry Report</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>March, 2011</td>
<td>Commission of Investigation</td>
<td>Misjudging Risk: Causes of the systemic Banking Crisis in Ireland</td>
<td></td>
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<tr>
<td>April, 2011</td>
<td>Wall Street and the Financial Crisis: Anatomy of a Financial Collapse</td>
<td>Majority and Minority Staff Report – Permanent Subcommittee on Investigations United States Senate</td>
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<tr>
<td>December, 2011</td>
<td>UK Financial Services Authority</td>
<td>The failure of the Royal Bank of Scotland</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>August, 2012</td>
<td>House of Commons Treasury Committee</td>
<td>Fixing LIBOR: Some preliminary findings</td>
<td>Secondary</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
The use of unobtrusive methods used in combination with these very rich data sources that can uncloak sensitive organizational issues. An example of how researchers can adopt unobtrusive methods to explore highly sensitive issues is illustrated by Chatterjee and Hambrick (2007: 36) who utilized unobtrusive measures such as “prominence of CEO’s photographs in the company’s annual report, CEO’s prominence in company’s press releases and first-person singular pronouns in interviews” to explore the concept of CEO narcissism. In this example, the innovative approach to researching such a sensitive issue was dictated by the potential for low response rates, participant bias in self-report measures and available instruments such as the NPI-40/16 and CPI that were considered blunt tools that may not have provided accurate or truthful insights. In their research, Chatterjee and Hambrick were undeterred by the limitations relating to access and non-responsiveness of participants and developed an innovative approach to gathering the publically available data as a proxy measure for CEO narcissism. More recently, Brennan and Conroy (2013) utilized discourse analysis to interpret the CEO [of a failed Irish bank] letters to shareholders to explore the concepts of narcissism and hubris and found evidence that the tenure of the CEO resulted in more pronounced narcissistic [hubris] behavior. It is doubtful if this insight could have been elicited without the benefit of unobtrusive methods.

As researchers, we faced a similar dilemma. The financial crisis provided us with a unique opportunity to explore very sensitive and difficult-to-study organizational events by utilizing public inquiries to do so. In order to fully understand the financial crisis, we as researchers needed to get to the story behind the intellectual and knowledge failures (UK Hearings 2009) that manifested as excessive risk-taking and poor decision-making behavior of many banking institutions. While these behaviors may not have been considered sensitive organizational issues, the associated negative organizational, institutional and societal impact was. Public inquiries provided a very rich narrative that illuminates cultural, organizational, institutional,
professional and structural issues that would otherwise remain hidden from public view. These narratives provide researchers with a proxy access as if they were present whilst paradoxically, not present from the perspective of an absent observer of organizational behavior. As Bruner 1990 (cited in Czarniawska 1997: 20) cogently remarked “the function of the story is to find an intentional state that mitigates or at least makes comprehensible a deviation from a canonical cultural pattern”. To illustrate the complexity of the failure of banking institutions at the center of the financial crisis – a conceptual model was developed from a content analysis of the primary and secondary data that reflected the various themes that emerged. Figure 3.5 represents the various themes that ultimately emerged as influential to embedding dark side organizational behaviors and reflect many areas of responsibility and influence of Human Resource Development.
Figure 3.5: Conceptual foundations derived from a Content Analysis of the Data

- Institutional Theory
  - Collective Cognitive Capture
  - Institutional Secrecy
  - Isomorphism
- Macroeconomic Policy Failure
- Policy Influence* (Lobbyists)
- Political Pressure**
- Power Imbalance

- Power & Influence
  - Financial Interconnectivity
  - Flawed Ideologies
  - Incentives
  - Intellectual Imbalances
  - Organizational Culture

- Cognitive Appraisal Theory
  - Black Swan
  - Denial
  - Anxiety
  - Attributional Egotism
  - Justification & Rationalization
  - Omnipotence
  - Omniscience/ Triumphalism
  - Self- Aggrandizement
  - Self-Entitlement

- Organizational Narcissism
  - Corporate Irresponsibility
  - Social Silence

- Global Financial Crisis 2007-Present
  - Search for Yield
  - Warnings ignored
  - Legitimacy

- Crisis Precursors
  - Black Swan
  - Evasive Answers/Redirection
  - Hubris
  - Linguistic Justification
  - Social Good
  - Self-Serving Acts

Dimensions of Risk-Taking Behaviour

* I define policy influence as a bottom-up (industry influence) – e.g., Lobby groups advocating reduced regulation

** I define political pressure as top-down pressure usually emanating from the state which has coercive and legal legitimacy over other institutional actors, including regulatory agencies
3.11 Organizing the Data – Collection, Coding and Analysis Strategies

This research explored the causes of the financial crisis from a human and organizational perspective and as such, was inevitably going to encompass a significant volume of data given that the financial crisis was a) a global event, b) had significant historical importance and c) resulted in considerable analysis and public inquiries focused on establishing the “causes of the failures” (FCIC Report 2011: 18; Nyberg 2011: 1; US Senate hearings 2011b: 6). One of the more pressing concerns given the scale of the research project related to “selectivity and data overload” (Miles and Huberman 1994: 55-56). To that end, and before any data was imported into NVivo, we employed a multi-step, multi-phase approach to collecting, analyzing and coding our data. The rationale for this approach to selection, collection, coding and analysis is derived from Miles and Huberman’s (1994: 50) argument that the researcher consider moving “back and forth between thinking about the existing data and generating strategies for collecting new, often better, data”.

3.11.1 Stage One

Stage one [Phase One] focused on viewing the public inquiry hearings and downloading all the inquiry testimony transcripts and secondary sources of data such as official reports. During this phase, the data was read without analysis or coding to get a feel for the content of the documents (Bryman and Bell 2007). Following this, the data was analyzed as raw data; doing so allowed the highlighting de novo of text we deemed important. The Adobe Acrobat X Reader had a built in highlighting tool that allowed for preliminary coding using different colors to signify the importance of a particular quote. In the initial phase, we viewed and re-reviewed available video and audio testimony from each of the public inquiries. Doing so helped in developing field notes or analytic memos by observing body language [video testimony], tone [video and audio] as well as responsiveness of the witnesses under questioning. These analytic memos allowed for the documenting and reflection process
providing anchors for the coding process and coding choices when they emerged. Analytic memos facilitated the inquiry process and reflect on the patterns, associations, categories, subcategories and themes that would ultimately emerge as the data analysis moved from a loosely fitting bag to a tailored suit. As (Saldana 2012: 32) cogently observed:

‘Analytic memos are somewhat comparable to researcher journal entries or blogs – a place to ‘dump your brain’ about the participants, phenomenon, or process under investigation by thinking and thus writing and thus thinking even more about them: ‘memos are sites of conversations with ourselves about our data.’

It was critically important that during stage one of the processes – coding was considered important but not necessary. As the financial crisis evolved, it became apparent that if global experts were grappling with what went wrong and had difficulty understanding how to connect the dots, there was little chance that a novice researcher would have enough theoretical or conceptual understanding to provide initial codes to concepts that challenged the world’s greatest minds. Weston et al.’s (2001: 397) observation validated this early coding decision because the “reciprocal relationship between the development of a coding system and the evolution of understanding a phenomenon” is part of a concurrent qualitative symbiotic relationship. This proved particularly insightful on a number of occasions when witnesses either engaged evasive answers/redirection in the case of Federal Regulators Sabeth Siddique and Susan Bies, the use of analytic memos were crucial here because they allowed for the signposting of something valuable to return to. Miles and Huberman (1994: 72) referred to memos as “one of the most useful and powerful sense-making tools at hand” and in our case – that is certainly the truth.

Following the importing of the highlighted witness testimony transcripts we began a search for key words associated with the financial crisis and the focus of our paper on collective risk-taking and decision-making. The key text searches were derived from both the literature
and our memos generated following the *de novo* reading of the raw data associated with the financial crisis. The text searchers included but were not limited to: *risk, risk-taking, risk perception, decision-making, culture, bank culture, bonus culture, identity, banking profession, finance profession, education, ideology, human resources, HRM, HRD, incentives, emotions, dysfunction, talent, management, leadership, organizational development, career development, regulators, regulatory capture, hubris, arrogance, pride, reckless, reckless behavior, irresponsible behavior, corporate irresponsibility, politics, influence, ratings agencies, Moody’s, Standard & Poor’s, Fitch.* As we located these words during our text searches, we set about assigning preliminary broad theme categories and utilized the highlighting tool in NVivo to mark the text.

3.11.2 Stage Two

Stage Two was a time consuming process however, it yielded some very interesting insights into the organization-institution narratives that contextualized the dark side behaviors prevalent in many banking institutions. For example, despite many mainstream commentaries about ‘bonus cultures’ and ‘misaligned incentives’ it emerged that some actors engaged in these behaviors as a result of professional pride (Nyberg 2011: 21) or a sense of camaraderie which reflected identity affiliation (US Senate hearings 2011b) more so than wealth maximization or ideological dispositional attitudes. Using NVivo, we retrieved a total of (8030) quotes that matched our criteria. Dominant categories that emerged were coded in NVivo nodes and sub nodes with annotations assigned to signify their importance for later analysis. Our text searches returned a number of preliminary categories in line with the literature on dark side behaviors such as: *flawed ideologies* (138) *asymmetries/imbalances* (372) *behaviors associated with excessive risk-taking & poor decision-making* (622) *organization culture/identity* (111) *collective cognitive capture* (62) *regulatory tension* (51) *power imbalances* (161) *corporate irresponsibility* (139) and *dark side risk-taking/decision-
making behavior (718). Along with the development of initial categories a number of sub-categories emerged which held direct the focus of the analysis, some of these sub-categories included for example ‘behavior exhibiting bandwagon effects’, ‘efficiency of financial markets’, ‘intellectual errors’ and ‘thoroughly embraced by academia’. Utilizing pattern coding we were able to conceptualize the organization-institution interaction of multiple actors into a “meta-code” (Miles and Huberman 1994: 69). Exploiting the underlying aspects of the financial crisis dark side behaviors we set about analyzing the data under those primary headings. We utilized our 360° analysis at this point as a form of iterative triangulation in order to cross check for consistency in the narrative (Jick 1979) and as illustrated in Figure 3.2. The thematic analysis, which reflected searching through volumes of data in order to recognize, classify and categorize data (Bazeley and Jackson 2013; Burrell and Morgan 1979; Miles and Huberman 1994) enabled the clustering of similar concepts into specific nodes and sub-nodes for later reclassification and thematic representation. Carney’s (1990) ‘Ladder of Analytical Abstraction’ cited in (Miles and Huberman 1994: 92) provided a very useful tool to help in the development of the analytic process [see Figure 3.5] and used in conjunction with the QCAF allowed us to funnel the data through a replicable and robust process.
Figure 3.6: The Ladder of Analytical Abstraction (Carney, 1990)

Level

3. Developing and testing propositions to construct an explanatory framework

Delineating the deep structure

Testing hypotheses and reducing the bulk of the data for analysis of trends in it

Synthesis: integrating the data into one explanatory framework

Cross-checking tentative findings
Matrix analysis of major themes

2. Repackaging and aggregating the data

Identifying themes and trends in the data overall

Searching for relationship in the data:
writing analytical memos
Finding out where the emphases and gaps in the data are

1. Summarizing and packing the data

Trying out coding categories to find a set that fits

Coding of data
Writing of analytic notes on linkages to various frameworks of interpretation

Reconstruction of interview tapes as written notes
Synopses of individual interviews

Create a text to work on

Source: Miles & Huberman (1994: 92)
Given that our research focused on understanding how dark side behaviors become embedded in organizational and institutional operations it was imperative that we understood the narrative that underscored the context in which these behaviors existed and were legitimized. Accordingly, we moved away from the relationship between what witness had stated in their eyewitness testimonies and specific theories exploring risk-taking and decision-making behavior to develop broad analytic themes (Miles and Huberman 1984; Pratt 2009). The examination of internal organizational memos, emails and other various company documents from prior to the emergence of the financial crisis in 2008 meant that texts “could be treated as traces of an author’s [eyewitnesses’] world view, preserved at a point in time and immune to retrospective construction” (Barley et al. 1988: 27). Moreover, these insightful sources of organizational and institutional practices had longitudinal value in that they reflected a “pattern of social action strengthened by a corresponding social norm” (Czarniawska 1997: 43) that not only described the institution of capitalism and capital markets but gave insight into how these social grouping might have become legitimized. This approach significantly decreases the potential for actor recall bias potentially highlighting organization-institution dynamics that might not otherwise emerge.

We categorized the organizational/institutional actors into fifteen separate groupings [see appendix] that covered expertise in all areas relevant to the financial crisis. We further collapsed these fifteen actor categories into eleven actor categories and coded accordingly, for example: Actor Type [Government], Actor Category [Regulatory], and Actor Country/Origin [US/UK/Ireland]. A further benefit of this structured and systematic approach was to identify patterns of behavior in multiple jurisdictions. For example, the regulatory system in the US is quite diversified [SEC/FDIC/OTS] however, the UK and Ireland have a more consolidated approach to regulation [FSA/CBFSAI] as such; we sought to understand how similarities or differences contributed to the failure of organizations and institutions.
3.11.3 Stage Three

The final stage reflected an iterative process (Miles and Huberman 1994) between the video testimony, interview transcripts, our ‘field notes’, official reports, and the literature to confirm the 2nd Order Codes [Themes]. At this point, data deemed interesting and warranting further analysis from the previous stages was integrated to develop a more mature framework. An example might be the interview conducted between FCIC investigators and Sabeth Siddique a former assistant director of Banking Supervision and Regulation with the Federal Reserve Board. Although Siddique’s testimony was not captured on video and no interview transcript was available, the availability of the interview in audio format through the FCIC website hosted by the Rock Centre for Corporate Governance at Stanford University (Stanford Law School 2011) allowed for this important narrative to be incorporated into the conversation. This unrestricted access provided greater understanding of the “contextual focus” (Suddaby and Greenwood 2005: 44) of Siddique’s line of argument, defense and avoidance techniques that did not come across in the official FCIC report (see FCIC Report 2011: 173). Moreover, it unmasked a narrative that would never have been revealed other than with the benefit of public inquiries as a proxy measure. Although time consuming, these audio transcripts were incorporated to facilitate triangulation using multiple perspectives [narratives] and sources of data (Stake 2005).

Sabeth Siddique – Interview Extract

**FCIC commission interviewer #1:** “....you mentioned that you were getting pushback at this point, had it gone inter-agency”?

**WITNESS SIDDIQUE:** “....hmm, the OCC was thinking about issuing this guidance on mortgages, they were talking about”

**FCIC commission interviewer #1:** “....so where was the pushback coming from?”

**WITNESS SIDDIQUE:** “....so once we did this survey [the survey went to 6 or 7 institutions trying to identify key underwriting trends – they (banks) self-reported], we had to first really ‘understand what was going on’.....there was rapid increase in ‘risk layering’ that was essentially, second home loans, investment loans, no doc
loans….high CLTV’s (cumulative LTV’s) so our survey suggested this was rapidly increasing and growing…they were ‘Countrywide, Citi, Wells, WaMu, Wachovia and Indy Mac....”

FCIC commission interviewer #2: "...why was there pushback from the presentation to the FED...you know, here’s what we found and we need to go back to basics"

WITNESS SIDDIQUE: "...because it was ‘stifling innovation potentially’ and it was denying the American Dream to many....

FCIC commission interviewer #1: [follow up question #1: Who said that? Who said that?]

WITNESS SIDDIQUE: “...I can’t remember....

FCIC commission interviewer #1: [follow up question #2: ok, this was 2005]

WITNESS SIDDIQUE: “....yes....

FCIC commission interviewer #1: [follow up question #3: was that to the board (of the FED)?]

WITNESS SIDDIQUE: “....ah yes, when we issued the draft [guidelines] of items we then got pushback from the ‘industry' and from 'congress'.....*at this point in the audio interview, Siddique became uncomfortable when asked how many of the [FED] presidents were at the presentation and what their response was to his presentation - his answers to direct questions by the FCIC staff at this time became evasive with redirect.....in the negotiations between the agencies, the OTS did give us a lot of ‘pushback’ from what I can remember on a number of guidance’s on both the non-traditional, subprime and the CRE guidance....

FCIC commission interviewer #1: “.....so was it someone specifically at the OTS?”

WITNESS SIDDIQUE: “....well, I think people themselves are rational people, we all have to follow orders.....and so they were just following ‘marching orders’”

FCIC commission interviewer #1: “......I’m mean, was there a particular office that you dealt with, how did you know?”

WITNESS SIDDIQUE: “...the policy area of the OTS”

FCIC commission interviewer #1: “...so how did you hear back about the ‘the concerns that congress’ or others had about your guidance?”

WITNESS SIDDIQUE: “.....it was specific comments we heard back”

FCIC commission interviewer #1: “....what exactly was the nature of the comments?”

WITNESS SIDDIQUE: “......it was really stifling innovation....the ‘philosophy was market discipline’ should ‘take care of these sorts of anomalies’ or bad practices and we don’t want ‘too much prescription in the regulation’ because it stifles innovation and ‘innovation is good for the overall financial markets and overall
economy’ that was the philosophy and there were many people that prescribed it and a mortgage being a 10 trillion dollar market you know that could have a major impact on the growth of certain markets”

WITNESS SIDDIQUE: “….in 2004 & 2005 my team went to NY to talk with the ratings agencies about their ratings...”

FCIC commission interviewer #1: “...which ratings agencies?”

WITNESS SIDDIQUE: “.....S&P and Moody’s that’s all....and we asked them about these ‘disturbing trends’ and the ‘senior folks’ from there thought it was a ‘blip it wasn’t a secular change’......it was temporary and the ratings agencies strongly felt.....”

FCIC commission interviewer #3: “....were you asking senior managers, quants, who were you asking?”

WITNESS SIDDIQUE: “....a combination.....”

Although there were multiple themes that emerged from analysis of the data, Table 3.2 [see below] represents an example of the data’s emergent structure for one of the Themes that emerged [HRD Intervention Failures]. This table illustrates the analytic abstraction as it progressed from Raw Data > 1st Order Categories > 2nd Order Codes > Theme [HRD intervention failures] that ultimately emerged from the analysis.
Table 3.3: Example of Data Structure Representation

<table>
<thead>
<tr>
<th>Raw Data</th>
<th>1st Order Category</th>
<th>2nd Order Code</th>
<th>[Theme]</th>
</tr>
</thead>
</table>
| Senior management would periodically distribute emails detailing their departments’ market share. These emails were limited to managing directors only. Even if the market share dropped by a few percentage points, managers would be expected to justify “missing” the deals, which were not rated. Colleagues have described enormous pressure when their market shares dipped. | • Maintain market share at all costs  
• Applying pressure on management to achieve organizational goals  
• Pressure to meet or exceed Targets | • Performance Targets  
• Management & Leadership pressures  
• Organizational Performance Driven Culture | • Anticipating & maintaining responses to changed conditions  
• Developing current and future leaders  
• Shaping organizational culture  
• Failure of ‘high road’ HRM strategy [includes HRD strategies] |
| While, to my knowledge, senior management never explicitly forced the lowering of credit standards, it was one easy way for a managing director to regain market share. I do not believe that this was done in a deliberate manner. Instead, during the bubble years, it was quite easy to rationalize changes in methodology since the nominal performance of the collateral was often quite exceptional. Easier still was avoiding asking whether the collateral standards had declined or whether some of the parties had ulterior motives in closing the transaction. | • Implicit coercion of employee behavior  
• Manipulation of processes & practices to maintain competitive advantage  
• Short-term supernormal profits impacting on cognitive processes  
• Social Silences maintained | • Coercion  
• Organizational Strategy  
• Cognitive Impairment  
• Power Distance | • Failure of Leadership Development [LD]  
• Misalignment of organizational goals/learning & development [L&D] interventions  
• Shaping organizational culture |
| I would also say I was not involved in 2007, as this information went through with the folks who rated subprime directly. But there was almost a feeling when dealing with them that there was a “see no evil, hear no evil” sort of attitude, and partly I think it is because people who had done these deals, rated these deals, did not want to believe what was going on, partly profit motivated, partly because they were part of this market, and it just should not be happening. Senator LEVIN. Part of that culture. Mr. KOLCHINSKY. Part of that culture. Closed eyes. | • Cognitive awareness of questionable practices  
• Cognitive Dissonance and rationalization of improper behavior  
• Collective Cognitive Capture of market participants | • Irresponsible Behavior  
• Emotional Impairment  
• Institutional Identity | • Shaping organizational culture  
• Failure of HR Strategic Partner role  
• Failure to facilitate the functional building of commitment among organizational members  
• Employee Advocacy failures [sustainability failures] |
3.12 Exploring a multi-level narrative of dark side behaviors

Arguably, the financial crisis is reflective of a disaster on an enormous scale (Stiglitz 2009) and epitomizes the complexity associated with trying to unravel multiple narratives associated with a systemic failure on a global scale (Honohan 2010b; McMurtry 2012). McMurtry (2012: 51) provides a useful insight, using Prisoner’s Dilemma that captures the essence of the multi-level scale of the financial crisis:

‘...in a poignant but unremarked symbolization of the wider social conditions within which the paradigm of prisoner’s dilemma is presented, all the legal parameters of the dilemma are blanked out – what the criminal accusation is, whether either party is guilty or innocent, and their purpose of action. At the same time, the moral values by which a sane humanity or society governs itself cannot enter this ‘rationality’. It abolishes the substance of reasoning at every level’

McMurtry’s erudite remarks illuminate part of the puzzle behind why the financial crisis appears to have been behaviorally systemic – that is, why it might appear as though there was a narrative that pervaded organizations and institutions alike. The causally complex interaction of multiple actors and institutions allowed this research to explore why so many actors viewed the risks they were taking to be rational, natural and impervious to ‘disconfirmation’ despite evidence that the decision-making processes were likely to produce ‘catastrophic’ long-term outcomes (McMurtry 2012: 52). Leveson (2009: 241) suggested that in order to develop safer systems there must be a shift away from the cause of the failure [which has a limiting, blame orientation] to understanding accidents [crises] in terms of why they happen. Ironically, the US and UK public inquiries that have sought to identify ‘who’ was responsible for the banking crises in both countries neglected to focus on the more important questions of ‘why’ individuals and institutional actors behaved in a similar fashion. It is as Czarniawska (1997) insightfully argues is the preoccupation with the structure [cause] over the process [narrative]. This represent the ultimate value of utilizing public inquiries as an important means by which to understand and address the why questions sometimes overlooked by public inquires in their rush to re-legitimize social and institutional structures
(Brown and Jones 2000) associated with organizational crises. Given that researchers can explore what Brown and Jones (2000: 47) refer to as “particularly interesting multi-level micro-macro events” that reflect the “macro social order as a set of representative meanings tracked across social settings” the causal complexity aids rather than hinders researchers exploring crisis events.

3.13 Conclusion

This chapter has sought to outline the theoretical and philosophical underpinnings of this research. In particular, this chapter has outlined the classification of study that this research assumes, which is exploratory. The ontological orientation of this research is situated within the paradigm of relativism with an epistemological bent of social constructionism, which is deemed most appropriate for this particular exploratory research. This research utilized public inquiries and official reports as primary and secondary data sources as a means of pursuing a nonreactive unobtrusive proxy measure of organizational and institutional dark side behaviors given the highly sensitive nature of the inquiry. This chapter provided insight into the selection criteria, coding, analysis and thematic representation that formed the basis of the methodology employed in this research inquiry.
CHAPTER FOUR
ARTICLES
4.1 Introduction

This chapter presents three published articles that form the basis of this PhD. First, this chapter outlines the rigorous and lengthy publication process from article inception and conference presentation to refinement, journal selection and subsequent submission to that journal including rejections and revises and re-submit [R&R] requests. The purpose of providing insight from process of PhD by article is to illuminate the trajectory of working papers through to publication so that future PhD candidates may benefit from this insight if they choose to pursue their research through this method.

4.2 Publication of Articles

Given the very fluid environment upon which this research was focused and coupled with the very sensitive nature of the research subject, it was decided that the most appropriate method for delivery of findings and the contribution to scholarly research was an article based approach (University of Limerick 2012). To that end, it was decided that the development of working papers for submission to a number of international conferences with the objectives of a) getting the work out in the academic community and b) eliciting feedback or constructive comments from conference delegates was the best approach for the PhD. Following discussions with my academic advisors it was decided to focus on a number of specific conferences rather than a non-directed snowball approach as this would elicit directed feedback. The conferences considered the most appropriate given the HRD focus on the research were the University Forum for Human Resource Development (UFHRD), Irish Academy of Management, Critical Management Studies (CMS) and the International Studying Leadership (ILS) conferences. These conferences provided a good mix of academic and practitioner delegates that ensured the working papers would benefit from a balanced approach to improving the paper and increasing the publication potential. Following some very insightful feedback, the working papers presented at the conferences were
further developed, written, re-written and submitted to the journals identified in the normal way.

A list of conference papers developed into journal submissions is listed below:


### 4.3 Summary of Articles

This section provides an overview of each of the three published articles. The objective here is to provide information on where the article was published and why the journal was chosen, highlight which objectives the article addressed and finally, outline my contribution to the article.
4.3.1 Article One: Understanding & Preventing Dysfunctional Behavior in Organizations

This article was published in *Human Resource Development Review* in December 2011 a quarterly HRD journal that focuses on quality theoretical and conceptual pieces. The primary focus of this article was on the first objective to:

- *Identify and describe antecedent conditions that can contribute to dark side organizational behavior using the global financial crisis as the context.*

This article also addresses all five of the sub-objectives associated with Research Objective 1 [RO1]:

- To review the literature on dysfunctional organizational behavior from a multi-level perspective using the global financial crisis as the contextual frame
- To define dysfunctional behavior at the individual, organizational and institutional level of analysis
- Develop a conceptual model to illustrate dysfunctional behavior from a multi-level perspective
- Propose how HRD might mitigate the risk of dysfunctional behaviors at multiple levels of analysis
- To make a theoretical contribution to the HR literature

This article explores the concept of ‘dysfunctional’ or ‘dark side’ organizational behavior. It provides a synthesis and critique of the literature on dark side behavior, identifying a lacuna in terms of understanding these dark side behaviors and their antecedent conditions from a multi-level HRD perspective. For instance, given that a fundamental aim in the HRD literature is to achieve and sustain competitive advantage through utilization of the organizations human capital, it was important to explore the impact of this performativity orientation on facilitating and perhaps even legitimating dysfunctional behavior. This article highlighted a number of issues facing both HRD practitioners and scholars in respect of identifying antecedent conditions that
may influence or facilitate dysfunctional or dark side organizational behaviors. In doing so, the authors provide a conceptual model depicting how multiple dark side behavior can embed at multiple levels within the organization. One of the primary theoretical contributions of this paper was to identify how HRD has the potential to prevent dark side behaviors from becoming part of the organization’s structures. This paper introduces a new conceptual role for HRD practitioners: Organizational Governance & Agency Mediation. This role acts as a buffer against negative or potentially damaging institutional pressures while at the same time acts as a conduit to allow HRD practitioners fulfill a new ‘board oversight’ role that can proactively engage with the board to address potential ‘damaging’ practices or processes from taking hold. This article was a co-authored piece, of which I was first author. This article was first presented at the 11th International Conference on Human Resource Development Research and Practice across Europe, Pécs, Hungary, 2nd – 4th June, 2010 and went through two revise and resubmit requests before finally being accepted for publication. I would estimate my contribution to be in the region of 85 per cent.

4.3.2 Article Two: Through the looking glass: challenges for HRD post global financial crisis

This article was published in Human Resource Development International Volume 15, Issue 3, 2012 and engages in the critical debate on how and why HRD may have inadvertently played a central role in the global financial crisis. Indeed, this article was a catalyst for an invitation to develop a theoretical book chapter utilizing deconstructionism to explore why HRD is likely to repeat the mistakes of the past unless the profession and scholarly community reconsider and redefine what HRD is and what HRD is not. The primary focus of this article is to address the second research objective:

- To explore the theoretical underpinning of Human Resource Development in determining how this has the potential facilitate, legitimate and normalize dark side organizational behaviors within the field of banking and finance and address the implications for HR.
This article also integrates a number of sub-objectives from the first and third research objectives [RO1 & RO3] as well as primarily addressing a number of sub-objectives from research objective two [RO2]:

- To consider plausible alternative hypotheses other than the mainstream ‘failure of regulations’ and ‘regulatory enforcement’ as possible causes of the global financial crisis
- To explore HR theory and practice and its impact on organizational behavior in the context of the global financial crisis
- To consider the theoretical and ideological failures that contributed to a systemic myopic view among HRD practitioners and scholars that ‘facilitated’ legitimizing dark side organizational behaviors
- To generate thought provoking debate within the HRD community to highlight concerns with the ‘performance orientation’ of HRD practice

This article was a thought provoking perspectives piece developed from a refereed paper presented at the 7th International Critical Management Studies Conference, Faculty of Economics, University of Naples Federico II, Naples, Italy, 11th – 13th July, 2011. The focus of this article was to generate debate within the HRD community regarding the low engagement with analyzing the ‘people’ antecedents of the global financial crisis. Indeed, what formed the initial basis of the conference paper was the perceived inability of the HRD community to accept that a failure of people in banking, finance and state institutions also represented a failure of HRD practices, processes and procedures. Moreover, it called into question whether HRD as a profession and scholarly endeavor had ‘strategically’ distanced itself from the global financial crisis by not addressing its role in the development of organizational talent and capacity that was found to be centrally involved in poor decision-making and excessive risk-taking behavior.

Following some encouragement from a number of delegates at the CMS conference, the paper was revised and ‘tempered’ so that it would appeal to the HR community and by extension the
HRD community and provoke discussion. At the time of going to press, there had been 9 articles published in HRD journals that questioned HRD’s role in the global financial crisis – 2 of those articles were editorials. This article was a co-authored piece and I would estimate my contribution to be in the order of 90 per cent. This paper also acted at a catalyst for the book chapter [see below] exploring how the concept and practice of HRD may have spread itself very thin in adopting multiple and competing roles and identities in search of legitimacy and credibility.

4.3.3 Article Three: The Global Financial & Economic Crisis: Did HRD play a role?
This article was published in Advances in Developing Human Resources Volume 16, Issue 1, 2014. The authors of the Special Issues exploring HRD’s role in the global financial crisis invited my co-authors and I to submit a paper based on previous work we had presented but specifically as a result of the perspectives piece that appeared in Human Resource Development International [article two]. This article primarily focused on addressing the third research objective:

- Examine whether cognitive and behavioral dispositions developed into dark side organizational behaviors within the field of banking and finance and address the implications for HR

As well as primarily addressing only research objective three [RO3], it also addressed a number of sub-objectives:

- To explore the characteristics & theoretical dimensions that may help explain ‘dark side’ organizational behaviors from a HRD perspective utilizing Cognitive Appraisal Theory
- To make a theoretical and empirical contribution to the HRD literature exploring what influences the decision-making and risk-taking cognitive processes of individuals in high risk business environments
- To illuminate what antecedent conditions are likely to produce ‘dark side’ decision-making behaviors
The focus of this article was to utilize Cognitive Appraisal Theory [CAT] as a theoretical lens to gain a better understanding of why individuals in banking [and other] institutions engaged in excessive risk-taking and poor decision-making behavior despite obvious indications that doing so would be personally detrimental and organizationally and societally impactful. This article utilized primary data form the US and UK public inquiries exploring the causes of the ‘banking’ crises in those countries. Drawing on the extensive empirical database developed over two years from the public inquiry sources, we utilized the sophistication of NVivo to help formulate concepts and themes that illuminated antecedent conditions likely to influence cognitive processes that might result in dark side behaviors. This was particularly important as it emerged a number of HR interventions considered to be contributing to the organization’s bottom-line [in the short-term] were potentially damaging it [and society] in the long-term. Utilizing the theoretical concept of CAT, we applied content and documentary analysis to discern to what degree emotions played in the decision-making process. Moreover, this article sought to determine if CAT provide a better understanding as to why individuals in banking institutions engaged in poor decision-making processes rather than the mainstream contention that ‘bonus cultures’ were the reason individuals and organizations engaged in excessively risky and poor decision-making behavior. Again, this article was a co-authored piece and I would estimate that my contribution was in the order of 80 per cent. Following discussions with one of my co-authors, it was suggest that developing a research methods book chapter would benefit other researchers who faced similar problems to the ones faced during this PhD research: access issues, sensitive organizational topic limitations and significant volumes of data analysis. To that end, a draft was submitted to a call for proposals from eminent scholars in the field of research methods. Having been warmly received by the reviewers, a research methods book chapter was developed that reflected the challenges and opportunities faced by this research and highlighted the potential benefits to researchers of utilizing unobtrusive methods in pursuit of research aims and objectives.
4.4 Articles

The remainder of this chapter contains the three published articles. Each of the articles is presented in their word format for ease of reading with the front page of the published version scanned and included in the appendix.
Article One
Understanding and Preventing Dysfunctional Behavior in Organizations: The Contribution of HRD

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Abstract

We review the literature on dysfunctional behavior in organizations and illuminate the potential contribution of HRD to manage such behavior and contribute to strong governance and compliance. The impetus for this paper comes from evidence of dysfunctional behavior in banking and financial organizations in many countries in recent times. We define dysfunctional behavior at individual, organizational and institutional levels of analysis and propose a model of HRD to address dysfunctional behavior at these levels. HRD potentially plays four key roles in the context of managing and/or preventing dysfunctional behavior: development of employee awareness & skills; effective governance of HRD practices, structures and delivery mechanisms; development of an ethical governance culture & climate and a more far reaching role that of organizational governance and agency mediation that minimizes the possibility of dysfunctional organizational behavior. We conclude with a discussion of HRD research and practice implications.
Introduction

The global financial and economic crisis has adversely impacted societies, organizations and individuals. However, what is most revealing about the current crisis concerns the way in which organizations behaved during the boom times and the consequences of such behavior for the stability of the world economy and society (Goldman 2009; Honohan 2010b). Numerous examples of inappropriate dysfunctional behavior have been highlighted. Examples of behavior that have come to light in recent times are: banks and financial institutions misleading or in fact lying to regulatory authorities concerning their risk exposure and financial stability (Blanchard et al. 2009), evidence of reckless lending practices and a failure to follow lending guidelines agreed with banking regulatory authorities (Hannon 2010), unethical practices by senior executives to cover up non-compliant practices and major liquidity problems (Honohan 2010b; Regling and Watson 2010). The proliferation of a bonus culture that encouraged unhealthy competition (Cipriani and Guarino 2009; Haiss 2010; Li and Li 2008; Morone and Samanidou 2008), the implementation by managers of lending practices that were not sufficiently focused on risk (Fahlenbrach and Stulz 2011; Hannon 2010; Noonan 2010; Nyberg 2011; Stiglitz 2010) and the failure of regulatory bodies to provide good governance and acquiescence of non-compliance practices (Federal Reserve System Board of Governors 2010; FSA 2009; Honohan 2010b) were central in the failure of banks and financial institutions globally. These various behaviors can be described as dysfunctional in nature because they have the capacity to negatively impact normal functioning of the organization and the potential to result in catastrophic outcomes for individuals, organizations and society. Minimizing, managing or preventing these behaviors has important implications for how HRD is practiced in not just banking and financial institutions but any organization where dysfunctional behavior can have a negative organizational and/or societal impact. Dysfunctional behavior as a theoretical concept can provide a lens to understand many of the issues highlighted above and provide insights into how they can be prevented.
The concept of dysfunctional organizational behavior is a relatively recent one and has been shown to be commonplace in many organizations. Research on this concept is well documented in the organizational studies literature (see Balthazard et al. 2006; Dellaportas et al. 2007; Duffy et al. 2006; Lawrence and Robinson 2007b) with a special issue of Advances in Developing Human Resources (in press) highlighting the prevalence and impact of dysfunctional behavior in today's organizations. Dysfunctional behavior can be conceptualized at individual, organizational and institutional levels of analysis. Categories of dysfunctional behavior were illustrated with the Enron case (Levine 2005b), a landmark case that highlighted how dysfunctional behavior became embedded and normalized in an organizational setting (Ashforth and Anand 2003). Levine (2005b, p. 727) provided insight into how dysfunctional behavior [in this case, unethical and corrupt behavior] was viewed by an executive at Enron who argued that they viewed “rules differently than other people”. Rule bending became an organizational norm, embedded in the organizational culture where organizational members derived a certain pride in subverting the rules. Enron represents the classic example of dysfunctional behavior that led to the collapse of an organization. However, it is also a very good example of how such behavior can spread from individual to team and become deleterious to organizational performance. Middle-level managers, traders and professionals comprised the core of Enron (Werther 2003b) and proclaimed themselves to be the smartest guys in the room. Kets de Vries and Miller (1984, p. 22) put forward the notion of organizational neuroticism that aptly characterized the inner workings of Enron. They argued, “...the prevailing neurotic style can give rise to shared fantasies and permeate all levels of the organization”.

Many of these behaviors have recently been illustrated in banking and financial organizations throughout the world and the lessons of the Enron case seem not to have been learned (Giroux 2008). This paper uses the theoretical lens of dysfunctional behaviors to conceptualize behavior in organizations and to locate the potential contribution of HRD to both understanding and managing such behavior. Firstly, this paper will analyze the various categories
of dysfunctional behavior and their consequences for organizational performance. It then proposes a model that conceptualizes the contribution of HRD. A theoretical and practical understanding of the contribution of HRD to both understanding and minimizing dysfunctional behavior represents a legitimate area of investigation. HRD is typically conceptualized in an organizational context through its potential to enhance capability and contribute to the development of knowledge, skills, behavior and values (Garavan 2007; Peterson 2008; Ulrich and Brockbank 2005). It is our contention in this paper that HRD can be utilized to embed good governance and ensure that the potential for the emergence of dysfunctional behavior is minimized. We propose four areas of contribution: Development of Employee Awareness and Skills; Development of an Ethical Governance Culture and Climate; Governance of HRD Policies and Delivery Mechanisms and in a significant advance for HRD, the performance of an Organizational Governance and Agency Mediation role.

Making a Case for a Dysfunctional Behavior Lens to Understand the Behavior of Financial & Banking Organizations

The extant literature provides important distinctions between the various categories of dysfunctional behavior and illustrates the impact of different types of dysfunctional behavior both from a financial and societal perspective (see Diagram 1). For example, some dysfunctional behaviors such as deviant behavior, counterproductive work behavior and dysfunctional team behavior may have a moderate to high financial cost for the organization in terms of reduced organizational commitment and lower levels of performance and output but because these dysfunctional behaviors are located at the individual/team level of analysis, they have low measureable societal impact (Ashforth et al. 2008; Balthazard et al. 2006; Levine 2010; Van Fleet and Griffin 2006). However, dysfunctional behaviors such as collective wrongdoing corrupt networks and organizational corruption can result in both a high financial cost and high societal impact (Haiss 2010; Lehman and Ramanujam 2009; Nielsen 2003; Stiglitz 2010; Tett 2009a). Dysfunctional behaviors exist on a continuum that illustrates how the various categories of
dysfunctional behavior range from low/moderate financial and low societal impact to high financial and high societal impact. Unethical behavior has the capacity to evolve from an individual/team characteristic into corrupt practices at an organizational and institutional level if conditions such as *egotistic climate* (Kish-Gepart et al. 2010) and *cronyism* (Begley et al. 2010; Mele 2009) facilitate the socialization of such behavior.

**Diagram 1: Financial & Societal Impact of Dysfunctional Behaviors**

Human resources are capable of conferring sustained competitive advantage in organizations but are also capable of counterproductive or dysfunctional work behavior (Levine 2010). A number of commentators have highlighted behavior in banking and financial organizations that can be labeled dysfunctional, unethical and in some instances, illegal or even corrupt. Honohan (2008, p. 3) writing in the context of the Irish banking crisis, argued that in an effort to compete in the marketplace, loan to value (LTV) ratios were increased, lending standards and stress testing of loans were relaxed and the reckless lending practices became the *modus operandi de jour*. Honohan (2010a) described Irish bank lending practices as neither safe
nor sound and constituted socially harmful risk-taking behavior. Honohan provides some insight into levels of dysfunction in Irish banking that over a protracted period of time facilitated the emergence of an unethical environment. Moreover, in the Irish banking context these behaviors may have become normalized as part of Irish banks’ culture (Nyberg 2011) which reflected the dominance of short-term incentive structures (Honohan 2010b) and collusion among ratings agencies and commercial and investment banks (Ely 2009; Shleifer and Vishny 2010). Berson et al., (2008) noted that organizations that emphasized risk-taking and advantage taking behavior do so even at the risk of stability and growth. The result is a situation where excessive risk-taking behavior overrides rational decision-making in pursuit of short-term objectives.

Dysfunctional behavior has also been identified as a key element of bank failures in the US & UK. Levine (2010) suggested that incentive structures motivated managers to engage in behaviors that were socially irresponsible. The financial collapse of Lehman Brothers, AIG, Bear Sterns, Citigroup, Freddie Mac and Fannie Mae highlights a number of common features. Firstly, there was an overreliance on complex financial models to reduce risk exposure (an intellectual and learning failure), secondly there was a degree of hubris among the senior management of these organizations (a failure in leadership) and finally there was an excessive success culture (Probst and Raisch 2005) which exacerbated the failures that emerged (a cultural and organizational development failure). The announcement by the SEC (2010) in the US that it intended bringing charges of fraud against Goldman Sachs for acting deceptively and in a conflict of interest illustrates failings in leadership and organizational functioning. The factors that explain the emergence of dysfunctional behavior in banking and financial institutions are complex and not yet fully understood.

Other notable banking and financial sector cases that illustrated dysfunctional behavior included the Société Générale and Lehman Brothers. The Société Générale bank case (Allen 2008) highlighted the fraudulent and deviant behavior by Jerome Kerviel which resulted in losses of $7.2 billion (€4.9 billion). The Lehman Brothers collapse was argued to be the result of a
culture of hubris, imprudence, corruption and fraudulent behavior (Gaffney 2009; Jameson 2009). The knock-on effect of the Lehman Brothers failure created a contagion effect that impacted other banking institutions. Schlich and Prybylski (2009, p. 49) have argued for the adoption of a “risk awareness culture” in US banks in the aftermath of the financial collapse. This argument was echoed by Honohan (2009) who called for [Irish] banks to renew and reform business models and their organizational culture.

**Understanding Dysfunctional Behavior**

The concept of dysfunctional organizational behavior yields a multitude of descriptors. The search criteria for this paper included but were not limited to: *Organizational Dysfunction, Dysfunctional Organizational Behavior, Dysfunctional Organizational Culture, Counterproductive Work Patterns, Dysfunctional, Unethical & Ethical Behavior, Team Dysfunction, Management Dysfunction, Global Financial Crisis, Banking Failure and Workplace Deviant Behavior* using standard academic databases such as: Business Source Premier, Academic Source Premier, Econlit, Web of Science and Web of Knowledge. A number of distinct themes emerged from this search such as: Leadership Derailment, Unethical behavior, Corruption, Deviant Behavior, Dysfunctional Culture and Dysfunctional Behavior. The search criterion was not confined solely to HRD type publications but also explored the wider organizational literature.

An analysis of the literature revealed that dysfunctional organizational behavior is observable at the individual, organizational and institutional level and the impact of such dysfunctional behavior can range from a mere annoyance to organizational destruction (see Balthazard et al. 2006; Beenen and Pinto 2009b; Fleming and Zyglidopoulos 2008; Furnham 2010; Kets de Vries 2009; Padilla et al. 2007a; Resick et al. 2009).

**Individual / Team Level Dysfunctional Behavior**

At the individual/teams level of analysis researchers have identified the impact organizational culture and climate can have on the rationalization and justification of deviant
behavior, counterproductive behavior, unethical behavior and/or corrupt behavior by individuals (Anand et al. 2005; Ashforth et al. 2008; Kish-Gepart et al. 2010). There is, however; some overlap in terms of dysfunctional behavior that resides within all levels of analysis, e.g. morally questionable behavior and *unethical intention/behavior* (Kish-Gepart et al. 2010), *organizational wrongdoing* (Palmer 2008), *counterproductive work behavior* (Levine 2010), *destructive behavior* (Padilla et al. 2007a), *deviant behavior* (Robinson and Bennett 1995) and *derailment* (Furnham 2010). While definitions of dysfunctional behavior at the individual level are diverse, there are more similarities than differences. Robinson & Bennett (1995, p. 556) for example, defined employee deviance as “voluntary behavior that violates significant organizational norms….and threatens the organization, its members or both”, similarly, Griffin and Lopez (2005, p. 988) defined *bad behavior* as “any form of intentional behavior that is potentially injurious to the organization and/or individuals within the organization”. Workplace incivility as a dysfunctional behavior located at the individual level of analysis is recognized to be a widespread dysfunctional organizational behavior (Andersson and Pearson 1999; Pearson and Porath 2005). Although workplace incivility is considered a “low-intensity deviant behavior with ambiguous intent to harm” (Andersson and Pearson 1999, p. 457) it can be considered a *gateway* dysfunction in that it has the capacity to negatively impact the affective and psychological state of both the instigator and victim (Cortina 2008), ultimately becoming an accepted and socialized norm in the organization (Estes and Jia Wang 2008; Reio Jr and Ghosh 2009) and develop into a “deviation-amplifying spiral – an exchange of increasingly counterproductive behaviors (Andersson and Pearson 1999, p. 462).

Individual behavior is reflective of organizational cues and the behavior of other colleagues and supervisors is significant in explaining such behavior. It should be noted however, that not all deviant behavior is necessarily bad. Resistance to an organizational culture or structures that act as “circuits of power” and promote or encourage behavior that can have a negative organizational or societal impact (Lawrence and Robinson 2007a) provides a
challenging operating environment for HRD professionals tasked with aligning the organizations human capital with the goals and objectives of the organization, especially if those objectives are morally questionable and ethically opaque.

Within the literature on counterproductive behavior, Levine (2010, p. 4) succinctly illuminates the negative effect of counterproductive behavior in Arthur Andersen. He argued counterproductive behavior by the individual was a critical dimension of organizational success or failure, more importantly however, were his remarks about counterproductive behavior being “permitted” or “encouraged” by the organization. Levine (2010, p. 5) defined counterproductive work behavior (CWB) as “…any intentional behavior on the part of an organizational member viewed by the organization as contrary to its legitimate interests”. Levine provides some insight into the potential difficulty faced by HRD professionals as they align human resources with the organization’s goals and objectives, this was also highlighted by Bierema (2009, p. 75) who noted that HRD tends to “favor a stockholder orientation” primarily focused on performance, efficiency and privileging “managerial and organizational” demands. The role of individual leadership behavior should not be underestimated when examining dysfunctional behavior. Prati et al. (2009, p. 411) suggested that “leaders develop quality relationships” with organizational members and therefore influence “norms and guide behavior”. The relationship between the leader and followers can result in an unhealthy recursive cycle of dysfunctional behaviors and outcomes such as derailment (Furnham 2010). Indeed, Kets de Vries (1991) argued that followers in the organization can fuel the leaders unhealthy narcissistic disposition through “mirroring” a leaders “significant figures” thus emphasizing positive reactions to past behavior. The darker side of leadership behavior (Resick et al. 2009, p. 1367) illuminates a narcissistic personality characteristic that has the capacity through “pervasive patterns of grandiosity” to spread throughout the organization and influence organizational cultural norms and behavior.

HRD professionals will need to be cognizant of what constitutes dysfunctional behavior and will need to be measured in their response to instances of perceived bad or deviant behavior.
The impact of withdrawal and reduced commitment to the organization can also impact organizational efficiency and productivity especially if it spreads from individual to team and results in dysfunctional team behavior defined by Cole et al. (2008b, p. 945) as “any observable, motivated behavior by an employee or group of employees that is intended to impair team functioning”. Ignoring the warning signs of withdrawal, reduced commitment and intent to turn over as a result of, for example, incivility in the workplace can have a significant financial impact on the organization. Reio Jr & Ghosh (2009, p. 238) noted a multi-billion euro annual cost in the UK for stress-related illnesses and absenteeism as a result of workplace incivility related behaviors. Litzky et al. (2006, p. 94) contextualized why employees might engage in dysfunctional behavior noting that “social pressures to conform” were antecedents of dysfunctional behavior. The development of a functional organizational culture and positive environment for socialization of new and existing employees resides within the HRD mandate. HRD professionals must ensure that the culture is consistent and balanced with the diverse stakeholder demands and should be designed and delivered to ensure appropriate behaviors from both employees and organizational leadership (Ulrich and Brockbank 2005). A misalignment of HRD goals and objectives can give rise to an environment that facilitates dysfunctional behavior of individuals and teams.

Organizational-Level Dysfunctional Behavior

There are numerous categories of dysfunctional behavior, including environments that produce dysfunctional behavior that are located within an organizational level of analysis, for example: counterproductive organizational behavior (Levine 2010), egoistic climate (Kish-Gepart et al. 2010), organizational corruption (Lange 2008) and dysfunctional organizational culture (Van Fleet and Griffin 2006). Balthazard, Cooke, & Potter (2006, p. 716) noted the central role culture plays in organizational outcomes, they argued that strong positive norms led to desirable outcomes whereas defensive norms facilitated dysfunctional behavior such as “dependent and avoidant (passive) and/or power-oriented (aggressive) dispositions”.
Levine’s (2010, p. 6) definition of *counterproductive organizational behavior* in which a “substantial number of organizational members” through policies or norms intentionally overlooked or implicitly or explicitly encouraged behavior which adversely affects multiple stakeholders provides the clearest example of how HRD structures and policies when aligned with organizational goals and objectives can facilitate dysfunctional behavior. There are striking similarities between the collapse of Enron in 2001 and events that led up to the current financial crisis. Deregulation in the energy market led to an abolition of norms in terms of legally imposed limits, there was, as Levine argued, a general acceptance of treating accounting practices (in the case of Enron) as rules to get around. More recently, investment teams within US banks dealing with subprime mortgages and securitized products such as CDO’s knowingly and intentionally labeled high-risk investment products as low-risk products with the aid of ratings agencies such as Moody’s, Fitch’s and Standard & Poor’s who colluded in these deceptive practices. These types of dysfunctional behaviors [*unethical behavior*] were perpetrated by organizations in pursuit of short-term objectives.

Kish-Gepart, *et al.*, (2010, p. 2) differentiated between unethical intention and unethical behavior, arguing that *unethical intention* was the “expression of commitment” to engage in unethical behavior and *unethical behavior* was the *act* of engaging in behavior that violated “widely accepted societal moral norms”. While these behaviors are reflective of individual/team dispositions, the ethical climate of an organization allows for these dysfunctional behaviors to become normalized at the organizational level of analysis. In an *egoistic climate* there exists a “normative push” for individuals to pursue “self-interested choices” often at the expense of social outcomes (Kish-Gepart et al. 2010, p. 6). Indeed, this was confirmed by their research, which confirmed that an egoistic climate was a significant predictor of unethical behavior. The egoistic climate illuminated by Kish-Gepart, *et al* (2010) is consistent with Hatcher (2002, p. 34) who noted climate and values were critical to organizational integrity and ethics. Similarly, Foote & Ruona (2008, p. 303) illustrated the importance of an organizational climate that promoted an
ethical disposition but argued that organizational leadership was crucial in “institutionalizing ethics in the workplace”.

The organizational climate does not indicate a binary disposition to engage in either ethical or unethical behavior. Schminke, Arnaud, & Kuenzi (2007, p. 175) argued, the work climate “exerts significant influence” on employee behavior, attitudes and outcomes. In the analysis of dysfunctional organizational cultures, Van Fleet & Griffin (2006, p. 4) noted that leadership sets the tone and if a leader puts profit before all else [egoistic climate], signals will become “institutionalized throughout the firm and its culture” and climate will become “increasingly dysfunctional”. Moreover, the work climate and culture is associated with commitment and satisfaction and can influence types of dysfunctional behavior other than unethical behavior such as theft and corruption.

The tendency of banks to engage in risky lending strategies that were unsound highlights what Palmer (2008, p. 107) refers to as collective wrongdoing, defined as “behavior perpetrated by organizational officials (i.e., directors, managers, and/or employees) in the course of fulfilling their organizational roles judged by social control agents to be illegal, unethical or socially irresponsible” in which wrongdoing is defused downwards throughout the organization. Palmer’s definition of collective wrongdoing is interesting as it illustrates the arguments made by Schminke, et al. (2007) and Van Fleet & Griffin (2006) that both the culture and climate are important conduits of dysfunctional behavior but more crucially that the leadership disposition sets the behavioral tone for other organizational members. Lange (2008, p. 710) defined organizational corruption as the “pursuit of interest by one or more organizational actors” through “intentional misdirection” of organizational resources or “perversion of organizational routines”. Levine (2005b, p. 724), however; argued that corruption entails a “higher end”, something more than increasing one’s personal wealth, it must involve a “perversion of public trust”. An examination of the financial and banking organizations reveals that Levine’s proposition holds true.
Corrupt organizational behavior, Pinto et al., (2008, p. 689) argued, exists when a “group of employees” carries out corrupt behaviors “on behalf of the organization” and is primarily a top-down phenomenon that benefits both the organization and the “dominant coalition”. External environmental factors such as regulations, shareholder pressure and analysts expectations may influence this type of dysfunctional behavior. Lehman and Ramanujam (2009, p. 649) noted that rule violation is higher when the expectation that “regulatory enforcement” is low and in examination of the recent banking and financial crisis, light touch regulation may have exacerbated the propensity for organizations to engage in this type of dysfunctional behavior (Blanchard et al. 2009; Federal Reserve System Board of Governors 2010; FSA 2009; Honohan 2010b). What is interesting about the context of the recent banking and financial crisis is that it consisted of multiple actors beyond the organization; the dysfunctional behavior was at a meta-organizational level or institutional level.

Institutional-Level Dysfunctional Behavior

The extant literature on dysfunctional behavior at an institutional level focuses on ethics and corruption (see Ashforth et al. 2008; Misangyi et al. 2008; Nielsen 2003; Venard and Hanafi 2008) and its variants, for example: cronyism (Begley et al. 2010; Chong et al. 2006), governance & regulation (Caprio and Levine 2002; European Commission 2011; Hupkes 2009; Riaz 2009; Ryan et al. 2010; Stiglitz 2010) and price fixing & antitrust behavior (Erutku and Hildebrand 2010; Sonnenfeld and Lawrence 1978). A notable exception that straddles the ethics and general finance literature is risk and herding behavior (Haiss 2010; Nyberg 2011; Rajan 2005; Tett 2010b) where the actions of institutional actors is influenced by internal and external institutional forces (DiMaggio and Powell 1983). An institutional level of analysis takes a systemic perspective of organizations (e.g. financial and banking organizations, insurance organizations, accountancy and auditing practice) and their interaction with other institutional actors such as government agencies, financial regulators, auditing firms.
The negative impact of dysfunctional behavior at the individual/team and organizational level is somewhat contained within the organizational environment and can be managed by HRM/D interventions. In contrast, institutional level dysfunctional behavior has the capacity for high cost and impact both financially and societally (see Diagram 1). What is interesting from a HRD perspective is the herding behavior that senior management engaged in at the largest US commercial and investment banks. Rajan (2005, p. 316) argued that because managers compensation related to profits, there was a “greater incentive to take risks”. The behavior of peers was also cited as a dimension that provided insurance against underperformance and this was highlighted in the most recent report on the Irish banking crisis (Nyberg 2011). This prescient argument has visceral resonance in light of the US and Irish banking collapses. When Lehman Brothers collapsed it started a contagion effect among US investment banks that then spread globally, severely impacting and prolonging recovery from the recession. It also highlights how behavior in financial and banking institutions is sometimes not based on sound business decisions but those of the herd (Haiss 2010). Levinson (2009) provided some insight into how senior executives in US banks made decision on their investment strategies. Chuck Prince, ex-CEO of Citigroup, was quoted in the Financial Times as stating “when the music stops” in terms of liquidity “things will be complicated but as long as the music keeps playing, we have to dance” (Price 2007). The admission by the ex-CEO of one of the largest banks that collapsed in the crisis provides a stark reminder that despite evidence to the contrary, their decision making can be based on little more than neuroticism (Kets de Vries and Miller 1984). Venard and Hanafi (2008, p. 484) illustrated the isomorphic nature of organizations at an institutional level, and argued that “similarity is the result of organizations’ quest to attain legitimacy within their environment”.

Competitive mimetic isomorphism (DiMaggio and Powell 1983; Pache and Santos 2010) within the financial and banking sectors illustrates the pressure toward similarity resulting from market competition. The inability or complacency of financial regulators to enforce financial regulations may have stemmed from not wanting to “alienate powerful constituencies in the
process of rule enforcement” (Lehman and Ramanujam 2009, p. 649). This type of institutional push and pull pressure also highlights the challenges faced by HRD in aligning its strategic objectives with those of the organization.

A systemic perspective is appropriate as some dysfunctional behaviors [corruption] appears to “thrive in particular organizations, industries and national environments (Ashforth et al. 2008, p. 670). This level of analysis according to DiMaggio and Powell (1983, p. 148), “directs our attention” to not just the inter-organizational interaction but to the “totality of relevant actors”. In examination of the financial and banking organizations mimetic isomorphic pressure to seek legitimacy among other banking institutions was evident in what became a race to the bottom in terms of lending behavior and investment strategies. One of the more damaging institutional level dysfunctions [corruption] was defined by Misangyi et al. (2008, p. 751) as “misuse of a position of authority for private or personal benefit” that can become institutionalized through situationally defined “role identities” embedded in a larger institutional framework that reflects a “recursive relationship among social actors, resources and institutional logics” (p, 754). Venard and Hanafi (2008, p. 482) cogently argued that the misuse of a position of power did not exist in a vacuum and that corruption in financial institutions for example “relies on transgressions of legal norms” as well as overt networks of willing participants. These definitions provide insight into corruption as a dysfunctional behavior that can be understood at an institutional level; however they do not fully capture the institutional dimensions that characterize the current financial crisis. Nielsen’s (2003) illustrates the institutional reach of corrupt networks that may have been evident in the current financial and banking crisis. Nielsen (2003, p. 126) argued that corruption at an institutional level was characterized by “sub-systems of corruption that extend beyond geographic, socio-political and political-economic systems”. The subtlety of corrupt networks such as crony capitalism can be pervasive in industries and countries with relatively lax enforcement of the rule of law and societal norms (Edelman and Suchman 1997; Lehman and Ramanujam 2009). Moreover, these corrupt networks have the
capacity to capture those tasked with regulating rule violation and take advantage of what Neilsen
refers to as misaligned incentives that favor politicians and regulators ineffectually monitoring,
acknowledging dysfunctional behavior in corrupt networks.

**Table 1** summarizes the types of dysfunctional behavior at each level of analysis (see page 35)
Conceptualizing HRD in the Context of Dysfunctional Behavior

The contribution of HRD to a variety of organizational outcomes is highlighted in the literature. Examples of such outcomes include the creation and facilitation of an ethical culture and climate (Ardichvili and Jondle 2009a; Foote and Ruona 2008); innovation (Chen and Huang 2009; O'Donnell et al. 2007; Werbel and Balkin 2010); organizational change (Garavan 2007; Wright 2008) and organizational learning (Heraty and Morley 2008). These represent some of the more mainstream contributions of HRD. We suggest that HRD will be expected to adopt an additional role, that of organizational governance and agency mediation to ensure that organizational cultures, climate and practices do not become toxic or dysfunctional (Kulik et al. 2008; Kulik 2005). It will also utilize a variety of well-established interventions to prevent and/or manage dysfunctional behavior. Figure 1 presents our conceptualization of the contribution of HRD to preventing or minimizing dysfunctional behavior at the three levels of analysis described in this paper. The framework identifies four areas of contribution that will be discussed in the next sub-sections of this paper. HRD interventions can potentially have a negative impact on institutional, organizational and individual behavior. Our framework is premised on the notion that if appropriately designed and targeted, HRD interventions can lead to positive outcomes for individuals, organizations and institutions.

Table 2 links specific HRD interventions to the three levels of dysfunctional behavior of and the potential positive effects of these HRD interventions (see page 36).
Figure 1: Conceptualizing the Contribution of HRD to Preventing and Minimizing Dysfunctional Behavior in Organizations
Development of Employee Awareness and Skills

Our first proposed contribution focuses on the development of employee awareness and skills in the following areas: ethically compliant attitude and behavior, proactive behavior and risk and ethical assurance. A variety of HRD interventions can be used to develop individual attitudes, behavior and skills to minimize the occurrence of dysfunctional behavior. HRD has a major role in ensuring that employees demonstrate compliant attitudes and behaviors (De Vos and Meganck 2009). These attitudes and behaviors can be developed utilizing a variety of learning interventions that focus on the development of risk awareness, and the skills to report unethical and non-compliant business practices. The development of positive attitudes and behaviors in these areas is complex. Eden and Spender (1998, p. 33) provided a rich analysis of the tension between the social and systemic dimensions of cognition and the individual who acts within that social context, eventually becoming an autonomous member whose actions reflect the reality of that universe. This point has been highlighted by Estes & Jia Wang (2008) whose review of the literature on workplace incivility illustrated how the organization’s leadership, culture and climate can reject or embrace workplace incivility. HRD has a role to play in ensuring that individuals are ethically aware and understand the negative impact of dysfunctional behavior. Ashforth et al., (2008, p. 671) argued that the corrupt behavior of individuals can spread like a “virus”. Individual actions of unethical and dysfunctional behavior are rarely contained and influence the behavior of others. Therefore HRD interventions that address how dysfunctional behavior occurs at the individual level represents a necessary first step in ensuring that such behavior does not become embedded at organizational and institutional levels.

The ethical predisposition of individuals relies on organizational cues, including colleague’s behavior and organizational leadership behavior (Biron 2010). The cognitive framework on which individuals base their moral decision-making (Reynolds and Ceranic 2007) illustrates how HRD can benefit the organization through developing learning interventions that
proactively address compliant employee attitude and behavior and at the same time, increase organizational risk awareness and ensure ethical compliance. It should be noted however, non-compliant attitudes and questionable behavior may not indicated dysfunctional behaviors *per se* but may highlight breaches or violations of the psychological contract highlighting antecedents of dysfunctional behavior. Through appropriately selected and implemented HRD interventions, the risk of individual dysfunctional behavior is minimized. De Vos and Meganck (2009, p. 48) for example found that employees who perceived a breach of the psychological contract reciprocated to the employer with “reduced levels of commitment and intentions to leave” (p. 48). Reduced levels of commitment and intention to leave can develop into negative dysfunctional behavior such as withholding of effort, social loafing and other forms of anti-social behavior (Felps et al. 2006). Through appropriately focused HRD learning interventions such as risk awareness programs employees will be equipped with sufficient skills to recognize the potential risk to fellow employees and report these issues through the HRD delivery channels before they become dysfunctional and spread throughout the organization.

**Governance of HRD Practices, Structures and Delivery Mechanisms**

Our second area of contribution focuses on the practices; structures and delivery mechanisms that are used by the HRD function itself. The HRD practices utilized and the structures and mechanisms that are used to deliver interventions will need to be subject to governance requirements. HRD practices are expected to comply with legislative requirements, regulatory body requirements, and national, international and best practice standards. Governance practices regulates the control and ownership of organizations (Konzelmann 2007) through “engaging in administrative monitoring to reduce conflict among organizational actors due to differences in incentives” (Lubatkin et al. 2007, p. 43). Agreements that exist between suppliers and customers, given the imperatives of external compliance, are important in that the HRD functions evaluate all of its processes and interventions to ensure they comply with these agreements.
Issues of governance also apply to the delivery channels themselves. HRD uses a variety of delivery channels such as business partnering located within business units, centers of expertise and sub-contracting (Garavan 2007). Groups involved in delivering HRD practices include line managers as deliverers of HRD and corporate HRD functions involved in the design of HRD policies, strategies and processes. The relationship between these various delivery channels is complex. Konzelmann et al. (2006, p. 548) has noted that the competing demands of multiple stakeholders such as “managers, employees, suppliers and customers” in public sector agencies can result in “extensive use of hard and soft HRM/D” to ensure “high quality and low cost” organizational objectives are met. In the private sector where the “dominant stakeholder is the shareholder”, this presents a different set of competing demands that often results in “potentially conflicting stakeholder relations” (Konzelmann et al. 2006, p. 548) given the organizational and legal requirement to pursue goals and objectives in line with increasing shareholder wealth – the modus operandi of any profit making/taking institution. These competing demands place pressure on HRD policies, practices and delivery mechanisms to align with organizational goals and may result in practices that are more short-term financially focused, “cost minimizing” and “exploitative” rather than congruent with long-term organizational viability or compliant with regulatory and/or social conventions. This paper extends Foote and Ruona’s concept of institutionalizing ethics in that we addresses other forms of dysfunctional organizational behavior and offer a conceptual model that recognizes that stand alone interventions are non-sustainable in the long-run. In our conceptual model we illustrate that while each of the proposed HRD roles operates in a symbiotic relationship similar to Foote and Ruona’s model (infrastructure, leadership, stakeholders and culture) we also provide the Organizational Governance and Agency Mediation role that facilitates the core objectives of the Governance of HRD Practices, Structures and Delivery Mechanisms role but also ensures that undue pressure or influence that can cause ambiguity or inconsistency are greatly reduced. This has the capacity to
ensure consistency and credibility in the delivery of HRD practices and structures when the various roles work in a synergistic manner rather than an isolated stand-alone way.

Farndale et al. (2010, p. 686) applied a supply chain management (SCM) perspective to analyze HR’s role in influencing corporate governance. They noted that there was a contrast between the rhetoric and reality within organizations in “reducing risk and improving governance” and most organizations in their study focused on “cost containment and efficiency”, highlighting the dichotomous learning-performance contribution of traditional HRD interventions. Moreover, the “governance mechanisms that could achieve compliance and simultaneously provide flexibility” were deficient. HRD practitioners need to understand the complexities and competing demands in a multi-stakeholder environment to ensure that a balance is struck between alignment with organizational goals and objectives while at the same time engaging meaningful stakeholder relationship management both internal and external to the organization.

**Development of an Ethical Governance Culture and Climate**

The third component of our framework focuses on the development of an ethical governance, culture and climate. The importance of HRD interventions to facilitate an ethical culture and climate within the organization is highlighted in the literature (see Fenwick and Bierema 2008; Foote and Ruona 2008; Garavan et al. 2010; Russ-Eft 2003). Organizational culture and climate are important organizational-level concepts that influence the emergence or prevention of dysfunctional behavior. Organizational culture focuses on the core beliefs and values that are predominant within the organization, whereas, organizational climate focuses on the collective mood, morals and behaviors within an organization. Individuals will identify with and interpret both the organizational culture and climate. Chreim (2002, p. 1119) argued that the more a member views the organization as the embodiment of his or her own self, the “stronger the identification and higher the cognitive, emotional and behavioral components”. Organizational culture is central to understanding dysfunctional behavior. Gregory et al., (2009,
have argued that “behavioral expectancies that dictate the way employees behave consistent with their cultural beliefs”. Gelfand et al. (2008, p. 149) made a similar argument when they noted that “dominating conflict cultures will be more prevalent in highly competitive industries” where the highest value is placed on “coming out ahead or beating the competition”.

Human resource development interventions are used to either reinforce or enhance an organizational culture, often in pursuit of organizational goals and the ubiquitous sustained competitive advantage (Barney 1991; Flatt and Kowalczyk 2008). The pursuit of these organizational goals and objectives can sometimes have negative outcomes. Dellaportas et al. (2007) found that cultural conditions at National Australia Bank (NAB) had led to excessive risk-taking behavior among traders; this culture was influenced both by an overriding organizational culture but also a trading floor subculture that existed at the time of the incident. Moreover, the official reports highlighted how organizational leaders created an implicit “Profit is King” culture that permeated throughout the organization and manifested in questionable behaviors engaged in by members of the trading floor subculture, these actions or decision were made in a culture of “profit-driven morality” which ultimately saw unacceptable behavior go unchecked in the bank (Dellaportas et al. 2007, p. 1448). HRD can potentially get sucked into the traditional learning-performative role highlighted by Peterson (2008, p. 89) who argued, “improved performance is the quintessential purpose of HRD”.

This perspective is true if we view HRD in a traditional sense; however, events in the financial and banking world illustrate the need for HRD to evolve and move beyond the pure performative role. The impact of organizational culture, both positive and negative has been shown in the literature to be influenced in varying degrees by HRD interventions. Ardichvili and Jondle (2009a, p. 240) argued that “HRD practitioners are the most visible carriers and promoters of ethical behavior” and positive organizational culture. Considering this, a high degree of responsibility naturally falls on HRD practitioners to ensure a healthy organizational balance within the development of ethical governance, culture and climate trichotomy.
Organizational Governance and Agency Mediation Role

The fourth and most far reaching contribution identified in our framework focuses on HRD performing an organizational governance and agency mediation role. HRD operates at several levels in the context of organizational governance; at a basic level it has a major role in ensuring that employees are compliant and engage in behaviors that are conducive to good governance. Second, the HRD function has a role in ensuring that its practices, structures and delivery mechanisms are appropriately governed to ensure that there is no exposure to risk or sanctions from regulatory agencies. Third, HRD can influence the core values and beliefs of the organization to ensure that they espouse appropriate governance values. We argue however, that HRD can make a fourth contribution to effective governance through the performance of an organizational governance and agency mediation role. Such a role recognizes the significance of institutional factors on organizational functioning. Misangyi et al (2008, p. 764) argued that individuals and organizations are embedded within a “wider institutional environment” that maintains a normative, mimetic and coercive formal and informal pressure “rooted” in their institutional environment. A similar argument has been made by Pache and Santos (2010, p. 460) who noted, “....organizational members who have been socialized or trained into a specific institutional logic are likely to be committed to defending it should it be challenged”.

The organizational governance and agency mediation role envisages that HRD should have a presence at board level and provide insight to senior management and executives on organizational issues that have a significant influence on whether dysfunctional behavior is prevented or not. The ability of HRD professionals to contribute at this level may prevent derailment of leadership and subsequent derailment of the organization (Furnham 2010) but will also serve to ensure practices such as unethical or corrupt behaviors do not become embedded in the organization’s culture. The “rank and yank” performance review process at Enron was identified by Sherron Watkins as one of the primary reasons “smart people stopped asking questions” (Beenen and Pinto 2009b, p. 278). In Enron, the focus had shifted to short-term
objectives rather than long-term viability. This parochial view was also evident in global banking and financial institutions prior to their collapse in 2008 and there is some evidence that it is still there. It is proposed that the three HRD foundational roles identified previously will ensure HRD professionals who perform whichever role effectively will have a legitimate place at the table and become more influential in developing organizational goals and objectives rather than simply implementing these goals and objectives. Such a role is appropriate for HRD given that at its core are notions of positive organizational impact, fairness, inclusiveness and a concern for human development. This role if reframed effectively has the potential to address what Padilla et al (2007a, p. 190) calls “the most important environmental factor that can prevent destructive leadership in organizations – checks and balances”. The concept of National HRD (NHRD) in the context of this paper offers an interesting integration conduit in addressing dysfunctional behavior. Although primarily aimed at addressing the economics of supply and demand for specific levels of human capital skills, the recent global banking and financial crisis has illustrated the failure of the free market model. As has emerged, tighter controls in terms of legislative and regulatory frameworks and a more centralized approach to NHRD could result in innovation becoming stifled and the increased risk of regulatory or legislative arbitrage. A hybrid approach that recognizes the necessity for voluntarism and the benefit of some interventionism can work to the benefit of organizations. It is possible that following on from the collapse of the free market ideologies and deregulation in the banking and financial sectors that government policies may identify a training need to recognize certain types of dysfunctional behaviors that have the capacity for negative societal impact. The development of the Corporate Governance Code (Financial Reporting Council 2010a), Stewardship Code (Financial Reporting Council 2010b) and the EU Corporate Governance Framework (European Commission 2011) highlight a need to address intellectual failures behind the banking and financial crisis and may provide momentum for this role. The organizational governance and agency mediation role proposed in this paper extends the role of HRD professionals but much is needed in ensuring sufficient skills.
are attained to take on this organizationally and societally responsible role. Universities have a responsibility with respect to extending the scope of HRD related curricula; more integration needs to be established with modules taught to Finance and Accounting graduates so that HRD students fully understand board composition and the economic pressures and external influences that can facilitate various types of dysfunctional behavior outlined in this manuscript.

The role would also act as a filter to ensure the organization is less likely to be negatively influenced by institutional level pressures. It will serve as a buffer against institutional level pressures that has the capacity to influence the adoption of dysfunctional [corrupt] organizational policies, practices and culture. Additionally, it can serve as a filter to ensure that potential dysfunctional behavior is addressed before becoming detrimental to organizational performance and development. The recent economic and banking crisis reveals that the interconnectedness of various agencies can become contaminated through a social contagion effect that has dire consequences for all involved. The governance role played by HRD in this context is not an arm’s length role but one that involves on-going integration throughout the organization. Given that HRD frequently lacks power in organizational settings it will have to build its legitimacy in the area of information sharing, trust, the articulation of clear pro-governance values, and collaborative problem solving (De Vos and Meganck 2009; Farndale et al. 2010). Farndale et al. (2010) characterizes this approach to governance as one that is based on norms rather than contracts. The strength of a norms-based approach is its focus on shared values, congruent goals and personal interaction between the HRD professional, senior leadership and the board of the organization.
Discussion and Conclusion

This paper has discussed a significant but relatively under-explored dimension of HRD’s contribution in organizations, that of its role in preventing and/or minimizing dysfunctional behavior. The paper is premised on the view that the desire for HRD to become a strategic partner to the business and align itself with organizational goals and objectives can lead to situations where the wider social and ethical responsibilities of the organizational are frequently forgotten in pursuit of profit. In such situations the actions of the HRD specialist can lead to a reduction in trust and a questionable contribution to stakeholder value. HRD has been accused of focusing too much on short-term performance at the expense of long-term viability (Bierema 2009; O'Donnell et al. 2006; Sambrook 2009) and this orientation has the capacity to contribute to some dysfunctional behaviors such as unethical and corrupt practices becoming institutionalized (Giroux 2008; Martynov 2009; SHRM 2008).

This paper makes three significant contributions to the HRD literature. Firstly, it conceptualizes dysfunctional behavior at three levels of analysis and focuses on the relationships between the levels. Second, it proposes a conceptualized framework that articulates and explains these more conventional ways in which HRD can contribute to the reduction of dysfunctional behavior in an organizational setting. Third, it argues that because of its traditional contributions, HRD can perform more innovative corporate governance and an agency mediation role based on the principals of norms-based governance.

Ulrich and Beatty (2001, p. 294) applied a metaphor to emphasize the strategic partnering role of HRD in the organization suggesting that HR should be “in the game” not just at the game. This metaphor may need to be re-conceptualized because being “in the game” potentially increases the risk of social contagion in terms of dysfunctional organizational behavior. Godkin and Allcorn (2009, p. 485) argued that “social networks propagate leadership attitudes” and that a “contagion perspective speaks to the unconscious” through “shared interpersonal and group
dynamics”. We therefore argue that HRD will need to become a referee of the game, acting impartially in the best interest of all organizational stakeholders whilst also ensuring strategic disengagement from the overriding organizational ideology if it is required, in order to act in the best interest of the stakeholders at an individual, organizational, institutional and societal level.

The role of organizational architects as proposed by Ulrich and Beatty (2001) now takes on a new perspective for HRD in the post economic crisis landscape. HRD theorists and researchers are interested in understanding how HRD interventions may have facilitated the failures whereas for practitioners, the focus is on understanding how to rebuild organizational capacity, human intellectual capability and perhaps most importantly - trust and credibility. The proposed organizational governance and agency mediation role dimension of HRD potentially provides a foundation for restoring organizational credibility and the trust of all stakeholders, internal and external to the organization.

**Implications for Theory**

The implications of our proposed conceptual framework for research are considerable. First, there is scope to more fully understand the norms based mechanisms that HRD professionals can utilize to enhance its corporate governance and agency mediation role in organizations. Many of the actions that HRD professionals will take at this level of intervention will be based on relations-based trust rather than formal authority. There is also scope to investigate the effectiveness of intervention and strategies that can be used by HRD to develop and enhance the ethical and governance culture and climate of organizations, develop employee awareness and skills in both ethics and governance and the types of structures, best practices and organizational mechanics that enable the HRD function to govern its practices and ensure effective alignment with stakeholder expectations, legislative requirements and the institutional control in which the organizations operate. Foote & Ruona (2008) posited that Infrastructure, Leadership, Stakeholders and Culture were fundamental dimensions in institutionalizing ethics in today’s contemporary organization. As we have shown, the roles of Development of Employee
Awareness & Skill, Governance of HRD Policies & Delivery Mechanisms and Development of Ethical Governance, Culture & Climate offer a structural fit congruent with ensuring dysfunctional organizational behavior is minimized and/or prevented. Scholars are in agreement that moral leadership is central in the adoption of ethical work practices (Foote and Ruona 2008; Garavan et al. 2010) but we would argue that this extends to ensuring dysfunctional organizational behavior does not embed in the culture or climate. Garavan (2007: 22) noted that “values, competencies, credibility and integrity” offered a means by which HRD professionals could become part of the “dominant coalition”; however, we must argue that becoming part of the dominant coalition may also cloud judgment, obscure objectivity and remove HRD professionals from the heart of the organization. We argue that the job of HRD professionals is a tough one and the dichotomous and often compromised position HRD professionals frequently find themselves in can exacerbate potentially borderline dysfunctional behavior through short-term incentive structures aligned with organizational goals and objectives. We propose that HRD professionals can pursue a “strategic disengagement” strategy when the goals and objectives of the organization are incongruent with organizational viability and societal norms & rules and the organizational governance and agency mediation role offers an opportunity for HRD to do this.

The recent banking and financial crisis has highlighted that the role of HRD professionals, tasked with managing both the development of the organizations and its human capital is even more important than ever before. Organizations that pursue a short-term business strategy and growth model run the risk of organizational failure and as we have witnessed, the outcome can result in national and international failure. As Lord Turner noted, the failure of UK banks was an intellectual failure (FSA 2009) and this sentiment has been echoed by the Federal Reserve (2010) in the US. Further, the most recent report on the Irish banking crisis highlights significant failures of management, leadership and other institutional actors (Nyberg 2011).

Future research might examine how national policies can help empower HRD professionals to remain strategic partners to the multiple stakeholders internal and external to the
organization. The adoption of the Corporate Governance Code and the emergence of the Stewardship Code (Smith 2011) offer possible routes to integrating this empowerment into the HRD arsenal. The SHRM (2008) also note that splitting the ethics function of HR offers a means by which HR professionals can be both strategically aligned with organizational goals and objectives yet also have credibility as independent partners to the business. Future research on the organizational governance and agency mediation role might explore integrating this with legislative frameworks such as Sarbanes-Oxley and the FTSE4Good Index aimed at minimizing / preventing dysfunctional organization behavior such as unethical / corrupt and/or other illegal practices.

**Implications for Practice**

The implications of our conceptual framework for practice are numerous. The roles prescribed for HRD professionals in the framework have significant implications for their skills and capabilities. The HRD specialist role as currently articulated in both the theoretical and practitioner literature is multifaceted and multidimensional. HRD professionals in organizations are required to interface with senior management, middle management, team leaders, line managers as well as organizational members on a daily basis. The ability to be cognizant of, and address the needs of organizational stakeholders is a daunting task. As credible partners in the business, HRD professionals are expected to provide a consultancy role to senior management (Wright 2008); balance realistic expectations of stakeholders, implement strategies aimed at achieving organizational goals and objectives (Garavan 2007; Peterson 2008); become positive change agents, develop management and leadership skills, provide career development interventions, manage organizational culture and ensure organizational development remains a core function (Gold et al. 2009; Lengnick-Hall et al. 2009; McKnight 2009; Tan 2009; Ulrich and Beatty 2001; Ulrich and Brockbank 2005). This is a tough job.

However, in light of the financial and banking crisis, HRD professionals will increasingly be expected to take on a more preventative role in the development, implementation and
management of corporate social responsibility (CSR) activities; HRD professionals will have responsibility to institutionalize these attitudes throughout the organization. We argue that effective implementation of the governance and agency mediation role will contribute to the creation of a renewed socially responsible organization, building on system and infrastructure for the demonstration of effective behaviors and enhancing the capability of employees to engage in functional rather than dysfunctional behavior. The groundwork to ensure future HRD professionals are equipped with the theoretical and moral foundations discussed in this paper begins in HRD education. Future HRD professionals will need to be not just conversant in business language (Peterson 2008), they will need to understand the roles of potential future business partners. Integrating theories and modules on Corporate Governance, Corporate Finance & Reporting and International Economics and Management into the broader HRD curriculum offers a way for future HRD professionals to understand the dilemmas that may face them in the business world but will also go some way to ensuring the continued professionalization of HRD. Wright (2008, p. 1069) has argued that if HR are to pursue the role of credible business partners and gain legitimacy in the eyes of senior management they must possess relevant “expertise rather than power that derives from their bureaucratic position”. The foundations for this credibility, legitimacy and expertise begin in HRD education. HRD education provides an appropriate point at which future HRD professionals will begin to develop the necessary skills to compete with rival occupational groups such as accountants, engineers and financial and management specialists in offering strategic advice to senior management. This offers HRD the potential to be strategically proactive rather than operationally and tactically reactive.

The roles we have proposed in our manuscript provide structural, cultural and governance mechanisms aimed at reducing or preventing dysfunctional behaviors and we recognize the challenge that faces HRD professionals in pursuing these roles. HRD is not an independent agency living outside the organization and without either legislative or regulatory frameworks to support the roles we propose; HRD would lack teeth and credibility. However, the adoption for
example, of the Corporate Governance Code of Practice (Financial Reporting Council 2010a), Stewardship Code (Financial Reporting Council 2010b) and the EU Green Paper Framework on Corporate Governance (European Commission 2011) provide examples of legislative and regulatory frameworks that will offer ‘teeth’ to HRD as they work to combat dysfunctional organizational behaviors. The report “The Ethics Landscape in American Business” (SHRM 2008) argues that splitting the ethics mandate of HR so that this function becomes quasi-independent does offer some ideas about how our organizational governance and agency mediation role might be achieved if conceptualized in a similar fashion. There does appear to be a groundswell of support for a fundamental shift beyond short-term incentives in organizations following the banking and financial crisis and it is this shift in attitude that may act as a conduit for HRD to adopt the more proactive and strategic roles we allude to in our manuscript.

The threat of more robust legislation or more stringent regulatory enforcement may act as an incentive for organizations to adopt codes of practice that minimize or prevent dysfunctional behavior if the outcome has a negative organizational impact such as a poor rating on the FTSE4GOOD Index (FTSE. 2010). HRD practices do not exist in a vacuum and whilst we recognize the enormous challenges in implementing many of the ideas identified in this manuscript, we do so in the hope that HRD has a significant role to play in minimizing or preventing dysfunctional organizational behaviors.

HRD professionals will perform a major role in articulating and preparing the action dimensions of governance and ethical behavior. In terms of Ulrich’s multi-role model, they will perform all roles simultaneously depending on the situation. The strategic business partner role will be vital in modeling the organizational governance and agency mediation role. Such a role will require the careful translation of governance strategy into processes, policies and practices. The change agent role will focus on the cultural dimensions of our model and in particular, managing the cultural change required depending on the timeframe to bring about change, and dealing with barriers to change at all levels of the organization. The employee champion role will
focus on changing employee behaviors, ensuring employee engagement, commitment and motivation to socially responsible behavior and good governance practices. The administrative expert role will focus on the assessment of risks associated with poor governance, monitoring the effectiveness and success of governance and CSR initiatives, auditing the compliance of HRD practices with legal and institutional requirements and measuring and reporting in governance performance to the board.

**Conclusion**

HRD has an essential role to play where the aim of an organization is to embed good governance and socially responsible behaviors into the core business values and activities, engage all stakeholders in discussions and actions concerning governance and manage the organizational culture and climate change necessary to ensure governance and socially responsible behavior are integral in all aspects of organization life. HRD must be central to these activities because to adopt the position where it is considered peripheral or not involved at all, organizations will fail to address the various levels of dysfunctional behavior discussed in this paper. It will represent a missed opportunity where organizational leaders remain unconcerned about the valuable contribution that HRD can make to preventing and/or minimizing dysfunctional behavior. HRD through its skill set, competence and interventions can challenge the status quo and make the changes required to integrate good governance into organizational strategies, polices, programs and practices.
<table>
<thead>
<tr>
<th>Author</th>
<th>Dysfunctional Behavior (Individual / Team Level)</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Berry et al. (2007); Brown and Trevisan (2006); Dunlop and Lee (2004); Flemming and Zyphridopoulos (2007); Griffin and Lopez (2005); Lawrence &amp; Robinson (2007); Litzky et al. (2006); Robison &amp; Bennett (1995); Palmer (2008); Furnham (2010); Levine (2010); Kish-Gephart et al. (2010)</td>
<td>(Bad Behavior) Deviant behavior: Aggressive behavior; Organizational Wrongdoing; Collective Wrongdoing</td>
<td>“…any form of intentional behavior that is potentially injurious to the organization and/or individuals within the organization” (Griffin &amp; Lopez, 2005)</td>
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<td></td>
<td>Derailment</td>
<td>“…derailing and derailed leaders can destroy organizations and entire countries with derailment characteristics including self-aggrandizement, recklessness and egoism” (Furnham, 2010)</td>
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<td></td>
<td>Unethical Intention</td>
<td>“…expression of willingness to engage in unethical behavior”</td>
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<tr>
<td></td>
<td>Unethical Behavior</td>
<td>“…any organizational member action that violates widely accepted (societal) moral norms” (Kish-Gephart, et al., 2010)</td>
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<td></td>
<td>Counterproductive Work Behavior</td>
<td>“…any intentional behavior on the part of an organizational member viewed by the organization as contrary to its legitimate interests” (Levine, 2010)</td>
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<tr>
<td>Cole et al. (2008); Felps et al. (2006)</td>
<td>Dysfunctional Team Behavior</td>
<td>“…any observable, motivated behavior by an employee or group of employees that is intended to impair team functioning” (Cole, Walter, &amp; Bruch, 2008a)</td>
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<tr>
<th>Author</th>
<th>Dysfunctional Behavior (Organizational Level)</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Levine (2010)</td>
<td>Counterproductive organizational behavior</td>
<td>“…actions that adversely affect customers, competitors, government agencies, even entire nations taken by a substantial number of organizational members, and the organization through its policies or norms permits, intentionally overlooks or encourages such actions either explicitly or implicitly” (Levine, 2010)</td>
</tr>
<tr>
<td>Ashforth et al. (2008); Kish-Gephart et al. (2010); Pinto et al. (2008)</td>
<td>Egoistic Climate</td>
<td>“…organizational environment emphasizes self-interest and encourages decision-making based on personal instrumentality.”</td>
</tr>
<tr>
<td>Van Fleet and Griffin (2006); Guerra et al. (2005); Lehman and Ramanujam (2009)</td>
<td>Corrupt Organizational Behavior</td>
<td>“…in which a group of employees carries out corrupt behaviors on behalf of the organization” (Pinto, et al., 2008)</td>
</tr>
<tr>
<td>Van Fleet and Griffin (2006); Guerra et al. (2005); Lehman and Ramanujam (2009)</td>
<td>Dysfunctional Organizational Culture</td>
<td>“…one that encourages and rewards mediocre individual- and group-level performance” (Van Fleet &amp; Griffin, 2006)</td>
</tr>
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<td></td>
<td>Collective Wrongdoing</td>
<td>“…behavior perpetrated by organizational officials, judged by social control agents to be illegal, unethical or socially irresponsible which is defined downwards throughout the organization” (Palmer, 2008)</td>
</tr>
<tr>
<td>Lange (2008)</td>
<td>Organizational Corruption</td>
<td>“…the pursuit of interest by one or more organizational actors through the intentional misdirection of organizational resources or perversion of organizational routines” (Lange, 2008)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Author</th>
<th>Dysfunctional Behavior (Institutional Level)</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Misangyi et al. (2008)</td>
<td>Institutional Corruption</td>
<td>“…misuse of a position of authority for private or personal benefit”</td>
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<td></td>
<td></td>
<td>“…relying on transgression of legal norms”</td>
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<td></td>
<td></td>
<td>“…behavior by public officials that deviates from accepted moral standards”</td>
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<tr>
<td>Morone &amp; Samadidou (2008); Haiss (2010); Neilean (2003)</td>
<td>Herding Behavior</td>
<td>“…mutual imitation leading to a convergence in action space” (Haiss, 2010)</td>
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<td></td>
<td></td>
<td>“…systemic sub-systems of corruption that extend beyond geographic regions and socio-political and political-economic systems”</td>
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</tbody>
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Table 2: Understanding the Impact of HRD Interventions on Dysfunctional Behavior

<table>
<thead>
<tr>
<th>Individual Level</th>
<th>Dysfunctional Behavior</th>
<th>HRD Interventions</th>
<th>Potential Positive Effect of HRD Interventions</th>
</tr>
</thead>
</table>
| Berry et al. (2007); Brown and Trevino (2006); Dunlop and Lee (2004); Fleming and Zychlinsky (2007); Griffin and Lopez (2005); Lawrence & Robinson (2007); Litzky et al. (2006); Robinson & Bennett (1995); Palmer (2008) | (Bad Behavior) Deviant behavior; Organizational Wrongdoing; Collective Wrongdoing | • Communicating & sharing knowledge across organization  
• Empowering line managers to take responsibility for HRD practices  
• Encouraging proactive behavior by employees in respect of wrongdoing  
• Leveraging best practices | Increased Organizational Citizenship Behavior (OCB), increase in Perceived Organizational Commitment to a psychologically safe environment  
Employee engagement may increase as a result of being perceived to be working for an ethically and socially responsible organization – reality rather than rhetoric |

| Kish-Gephart et al. (2010) | Unethical intention / Unethical Behavior | • Conducting risk assessment of HRD activities | Potential to reduce the impact of unethical intention / behavior |

| Cole et al. 2008; Felps et al. (2006) | Dysfunctional Team Behavior | • Implementing cultural change programmes  
• Focus on strengthening team cohesiveness & raise team awareness of organizational and team goals  
• Provide training programs to managers to intervene when dysfunctional behaviors first appear, e.g. emotion regulation training | Contributing to permanent change in attitude and behavior  
Aligns team focus with objectives and provides a counter for potential negative feelings to translate into poorer team and organizational performance  
Through a reappraisal process, managers may be able to temper negatively charged emotional responses that lead to dysfunctional behavior and provide a channel for team members to verbalize and ventilate positively |

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<th>Organizational Level</th>
<th>Dysfunctional Behavior</th>
<th>HRD Interventions</th>
<th>Potential Positive Effect of HRD Interventions</th>
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</table>
| Levine (2010) | Counterproductive organizational behavior | • Defining HRD roles to ensure clarity  
• Articulating ethical principles | Clearly defined ethical and social position of the organization will result in less ambiguity |
| Ashforth et al. (2008); Pinto et al. (2008); Pfeffer et al. (2008) | Corrupt Behavior | • Mechanisms to enable employees to report non-compliance | Safe environment for ‘whistleblowing’ |
| Van Fleet and Griffin (2006); Guerra et al. (2005); Lehman and Ramamujum (2009) | Unethical Organizational Culture | • Benchmarking practices internally and externally  
• Scanning the external environment | Implementation of cultural change programmes can result in attitude and behavioral change at multiple levels |
| Lange (2008) | Organizational Corruption | • Training on ethical & governance awareness | Reduced potential for corruption at organizational level and linked with safe whistleblowing environment |

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<th>Institutional Level</th>
<th>Dysfunctional Behavior</th>
<th>HRD Interventions</th>
<th>Potential Positive Effect of HRD Intervention</th>
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| Misangyi et al. (2008); Venard and Hanafi (2008) | Institutional Corruption | • Multi-person sign off on HRD practice compliance  
• HRD Scorecard in-line with KPI | Service level agreements that incorporate governance goals  
Measureable metrics with tangible outcomes |
| Haiss (2010) | Herding Behavior | • Alignment of Performance Incentives with multi-stakeholder objectives | Reduced potential of managers engaging in excessively risky strategies due to external environmental pressures |
| Nielsen (2003) | Corrupt Networks | • Auditing governance performance | Board level visibility translates to positive impact for organizational stakeholders |
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Article Two
Through the looking glass: Challenges for HRD post the global financial crisis – business as usual?

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Abstract

An important question for HRD concerns how its practices may have contributed to the global financial crisis. Commentators have highlighted that HRD must take some of the blame. First, we consider whether HRD’s traditional role of contributor through performance-based development interventions, may have facilitated questionable practices in organizations. Second, we reflect on whether HRD was an irrelevant spectator through being benign and impotent rather than challenging the status quo in organizations. Third, we contemplate the protagonist role and argue that HRD practitioners pursued short-term performance-based wealth maximizing objectives with scant regard for the long-term organizational or societal impact. We conclude by considering how HRD scholars can engage tomorrow’s business leaders in critical reflection and how HRD practitioners can pursue a strategic decoupling position which allows for challenging the status quo without alienating their professional status in the organization and ethical standing in practice.

Keywords: rethinking HRD; global financial crisis; banking institutions ethics

Introduction
The on-going global financial crisis has prompted commentators to question the behavior of the banking/financial services and regulatory organizations. In what has been called a human and intellectual failure (Financial Crisis Commission 2011) the societal impact from failures in intellect and knowledge have left many unanswered questions. In the search to understand what caused the global financial crisis, attention has focused on how relaxed regulatory enforcement or ‘light touch’ regulations allowed banking/financial institutions to engage in excessive risk-taking behavior. There is evidence of fundamental failures in financial regulation and in particular the laissez-faire approach adopted by regulators that undoubtedly exacerbated lending and risk-taking behavior within the banks. Whilst organizational failure is not uncommon, questions concerning the influence of bonus structures, incentive and remuneration packages and pseudo-ethical behavior calls into question the role of Human Resource (HR) professionals and the practices they implemented.

Human Resource (HR) professionals play an active role in managing the organization’s human intellectual capital and yet have been noticeably absent from many of the critiques exploring the causes of the global financial crisis. This is curious. HR professionals are frequently considered Employee Advocates, balancing reciprocal employee-employer relations; they are also Human Capital Developers, ensuring the most critical asset of the organization [human intellectual capital] contributes to sustained competitive advantage. HR professionals are also viewed as strategic partners to the business. They are frequently members of the senior management team and contribute expertise in understanding people, the organization and the environment; they therefore have an important role in driving business strategy (Peterson 2008; Ulrich and Brockbank 2005, 199-201). The Human Capital Developer role (Ulrich and Brockbank 2005) is often viewed as the raisons d’être of employing Human Resource Development (HRD) professionals. Given that knowledge and intellectual failures were identified as central to the global financial crisis, it seems
appropriate to focus on how HRD practices and interventions may have contributed to the crisis.

A variety of HRD scholars have sought to advance HRD as both an academic discipline and set of organizational practices and it is now generally accepted that HRD is a highly contested concept and that HRD practitioners operate in a complex and compromised context. This ambiguity in theoretical base and potentially a lack of credibility in practice may render HRD interventions little more than proxies for the bidding of the organization’s political elite. The role of HRD in the wider HR architecture is tasked with: shaping organizational culture, developing organizational management and leadership, and managing organizational development (Gold et al. 2009, 28-29). The shift from operational and tactical HRD to strategic HRD has witnessed a metamorphosis for HRD practitioners increasingly becoming partners in the business tasked with aligning people, strategy and performance rather than simply promoting learning and development. The proposition that HRD is expected to balance a competing set of stakeholder demands is not a new one and forms a central issue in discussions of HRD (Corley and Eades 2006; Rigg et al. 2007; Sambrook 2009) as well as the wider HRD literature (Garavan 2007; Gold and Bratton 2014; Peterson 2008). Subsequently, the impact and inherent conflict of serving two masters (employees/employer) has now become clear and questions about the dichotomous HRD role in the organization requires re-evaluation. This point is trenchantly observed by Rigg et al. (2007, 26) who noted:

“...the focus [of HRD] is generally on identifying means of improving production efficiency, with little regard to organizational issues viewed from a pluralistic perspective, such as the political dimension manifest through the contradictory needs of employers and employees, and implicit power imbalances”
The close alignment of HRD practices and interventions with organizations’ goals may detach HRD practitioners from their espoused values thus perpetuating power imbalance in organizations. Aligning HRD strategy too closely with the organizational strategy in pursuit of sustained competitive advantage potentially results in HRD practitioner’s becoming unwitting pawns in reinforcing power imbalances. Through these actions, HRD practitioners may inadvertently contribute to the creation of an environment that facilitates, if not encourages, unethical or even corrupt behavior (Ardichvili and Jondle 2009b). Ironically, HRD practitioners may have achieved this imbalance through its pursuit in both legitimacy-seeking behavior as a player in the [political] game (Ulrich and Beatty 2001) and credibility-seeking behavior in translating human intellectual capital into financial bottom-line figures (O'Donnell et al. 2006). In devolving some of their roles to the line in pursuit of the ubiquitous business partner role, HRD practitioners have become captured by the organizational apparatus that views them as a way to ‘serve the interest of the organizations first and individuals second’ (Sambrook 2004, 617). Wright (2008, 1069) noted that the legitimacy granted to HR professionals by senior leadership is based on acceptance of ‘individuals’ expertise rather than the power derived from their position’. That [HRD] expertise is centered on the ability to extract intellectual capital and convert it into financial bottom-line figures and sustained competitive advantage. Results count, how they are achieved matters not (Bierema 2009). Paradoxically, HRD practitioners who engage in tactics to become strategic business partners, internal consultants and trusted advisors may inadvertently widen the power imbalance gap as they too become intellectual capital to be utilized in pursuit of maximizing shareholder wealth – the dogma ascribed by the organization’s power elite. The primacy of the shareholder ideology embraced by the banking/finance sector has been found to be fundamentally flawed with calls for a re-
evaluation of how management, finance and economic theory is taught in the classroom and how it is practiced in the organization (Krugman 2009; Stiglitz 2010).

Government commissioned reports into the causes of the global financial crisis has consistently highlighted fundamental failures of intellect, knowledge and people. Ironcally, the organizational group tasked with developing the organization and human intellectual capital has not been examined in any great detail to determine what, if any, contribution it made to the behavior of those it was meant to be developing. Analogously, HRD practitioners and regulators share similar responsibilities. One has a macro responsibility, the other a micro responsibility. HRD practitioners are expected to be capable of developing the individual, organizational culture and organization to ensure synergy in the achievement of sustained competitive advantage. Regulators are tasked with governing the behavior and risk of financial institutions to ensure safe and sound business practices. Both HRD practitioners and regulators have an implicit societal responsibility, yet only the regulatory failures have been examined in any critical way. This is an unfortunate blind spot in the literature.

**HRD – reflecting critically on critical reflection**

HRD is conceptualized as a set of activities aimed at facilitating individual, team and organizational learning. Defining precisely what HRD is and does is problematic (Sambrook 2004). As HRD has evolved its boundaries and conceptualizations have shifted. From a theoretical perspective, Lee’s (2001, 331) argument that HRD is in a state of becoming rather than a state of being demonstrates that as HRD research and practice matures, it will inevitably encompass a broader range of responsibilities. The potential for HRD interventions to impact [positively & negatively] at the organizational and societal level is well recognized in the literature (Garavan and McGuire 2010; Hine and Preuss 2009) and this is also
acknowledged in some of the recent literature on the global financial crisis (Fahlenbrach and Stulz 2011).

More recently the HRD literature has addressed the performance-learning/labor-capital dichotomy associated with traditional conceptualizations of HRD (Bierema 2009; Trehan and Rigg 2011). The traditional view of HRD often fails to address the power imbalance, unethical proclivity of organizational reality and political dimensions inter alia central to the practice of HRD. Managing learning and development is a political endeavor requiring much cajoling on the part of HRD practitioners as they jockey for position within the senior management circle and justify their place at the table by contributing to the financial bottom-line through the human intellectual capital utilization. This is the organizational reality of HRD practice. Hatcher (2002) argued that organizations as rational economic entities pursue the wealth maximization doctrine in which the primary business ethic is one that addresses the economic need of the organization. Moreover, because of HRD’s myopic economic centric predisposition, it may have been ‘complicit in corporate wrongdoings and may have assisted in providing an environment that supported unethical behavior’ (Hatcher 2002; Rigg et al. 2007, 56). It is not difficult to understand why HRD professionals have a myopic perspective given the role that the Resource-Based View (Penrose 1995) and Dynamic Capabilities (Teece et al. 1997) play in explaining the role of HRD.

Managing Our Way to Economic Decline – failures of theory and ideology

The question of how HRD professional can extricate themselves from the questionable influence of the senior management team and at the same time ensure that their contribution to the organization remains strategic is complex and tough to answer. HRD serves two masters, and in light of the crisis it may not have done this very well. The pressures of ‘short-termism’ and ‘performance horizons’ in line with quarterly results (Legge 2005, 171)
conspire against HRD practitioners to balance the needs of their diverse stakeholder demands. HRD must balance the needs of the organization’s leadership with whom they are aligned strategically and politically [or pseudo-politically] on the one hand with the organization’s human capital whose potential they have responsibility for developing [in pursuit of the financial bottom-line] on the other hand. It’s an impossible situation. It is as Willmott 1997 cited in (Rigg and Trehan 2008, 378) has observed to be the ‘inherent conflicting nature of organizations’ social relations’ where managers are both perpetrators and victims of the organization’s control systems torn between the realities of the organizational orthodoxy and the prescriptive roles that practitioner-scholars espouse are central to conceptualizations of HRD. The overriding focus of traditional HRD has been on performance, learning interventions, efficiency, alignment with organizational strategy and measurable contribution to the organizations financial bottom-line. Following the collapse of free market ideologies (Friedman 1970) and impact as a result of the crisis, it is evident that the performance orientation did not always translate into successful organizational and societal outcomes. Contextually, the role of human capital developer represented a proxy to allow HRD practitioners pursue a strategic alignment orientation through achieving organizational goals and sustained competitive advantage or as Bierema (2009, 70) incisively argued was used in a ‘competitive way to gain credibility among management elite’. This is the reality of the complex environment in which HRD practitioners operate. Sambrook (2009, 66) suggested that it is important to be cognizant of the ‘messiness, complexities and irrationality – rather than the sanitized reason and rationality of organizational practices’. It is this pointed observation that strikes a chord as we consider our [HRD] role in the global financial crisis.

Anderson (2009, 264) has examined the role of strategic HRD and concluded that it is primarily focused on ‘resource maximization, productivity enhancement’ and the leveraging
of interventions to enhance the ‘core capabilities of the organization’. This perspective reflects the economic-centric orientation of HRD interventions. The measure of success and acceptance for HRD practitioners and their interventions is the degree of impact on achieving organizational goals, financial bottom-line and business performance (Trehan et al. 2006). Rigg et al. (2007, 47) succinctly elucidate this position as they argued that ‘HRD is compliant and a handmaiden to neo-classical economics’. Within banking and financial institutions ‘money and credit were treated as an a-cultural thing, ripped out of any social context’ (Tett 2010b, 124). Similarly, the bonus and incentive structures were also devoid of any long-term social impact considerations. Banks, according to Tett (2009b) often had subcultures that yielded considerable power based on how much revenue they were generating. Within this context, HRD practitioners were required to develop and reward employees who had outstanding performance [in the short-run]. More crucially, HRD was tasked with managing internal talent and seeking external talent that mirrored this short-term orientation; a point illustrated by Werbel and Balkin (2010, 3) who argued that rewards provided to those who engage in questionable means to achieve and exceed the organizations goals and objectives sends a ‘symbolic message’ to others that legitimizes the behavior. Moreover, a performance appraisal and talent management system that focused solely on outcomes but ignored the behavioral impact that institutionalizes a short-term orientation, which can result in significant negative societal impact. The expertise that Wright (2008) noted as central to the legitimacy-seeking behavior of HRD professionals is captured in recent research carried out on the sales based orientation of Irish banks.

“….it was no longer about the customers, it was about profits and weekly sales targets….one’s best is no longer good enough and the performance review process serves no valuable purpose except for being a stick to beat employees with”

(IBOA 2011, 25)
The labor-capital and performance-learning orientation of HRD interventions when coupled with misaligned social objectives can and do have dire consequences. Undue risk-taking and private gains at public expense; perverse incentives in banking institutions created an environment where the pursuit of wealth maximization created disequilibrium between the goals and objectives of banking institutions and the impact and negative consequences for societal stakeholders (Stiglitz 2010). Excessive risk-taking was rewarded, downside risk was ignored and in the reward schemes endemic in banking/financial institutions - banking professionals shared in the gains but not the losses. Society on the other hand has been forced through difficult austerity measures to pay for the excessive risk-taking behavior in banking/financial institutions. The global financial crisis has illustrated a zero-sum game, where banking institutions won and society lost (Stiglitz 2010, 152). More importantly, it highlights the complicit role of HRD interventions such as: professional & leadership development and organizational/cultural change programs in facilitating organizational behavior that was excessively risky and socially destructive.

The negative cost of HRD scholars and practitioners not challenging the status quo may therefore be significantly greater than any gains made in the organizational political power plays. The irony is that in the push to think, act and position strategically, HRD arguably has lost its ability to critically reflect and see beyond the next financial quarter. HRD practitioners may not have been the architects of the global financial crisis; however, their interventions and legitimacy-seeking behavior potentially contributed to the building blocks that were central to the current crisis – the human and intellectual dimensions.

In search of legitimacy

Blackman and Sadler-Smith (2009, 572) noted that [organizational] silence could be deemed ‘consent or affirmation, compliance or acquiesce’ and certainly, one might argue that in the rush to be seated at the senior management table, integrity and trust may have been the cost.
Blackman and Sadler-Smith’s paper is contextually interesting. HRD practitioners and scholars may now need to move beyond the desire to influence organizational power structures through strategic rhetoric. We simply cannot play the game when we don’t understand the rules of the game.

A balance however, can be struck between HRD being seen as a ‘trusted advisor or partner’ (Wright 2008, 1073) whose expertise is viewed as central to the strategic goals of organizations on one hand and the commitment to serving the employee and wider societal needs on the other. A balance in which ‘public interest provisions do not preclude the pursuit of organizational-based gains and interests’ providing they do not negatively impact the ‘welfare of community and society’ (Kuchinke 2010, 577). The legitimacy-seeking orientation of HRD practitioners in the banking/finance sectors prior to, during and post crisis may have assumed a subservient role to the dominant organizational coalition putting the interests of the organization first and individuals and society second. The pursuit of legitimacy however, is not banking sector centric. Many HRD practitioners may find themselves on the back foot to senior management colleagues with a finance/consulting background. Acceptance and credibility at the senior management table in the company of these colleagues is based on compliance rather than intellectual contribution.

HRD practitioners in banking/financial institutions may have had no choice but to remain silent in light of the culture that undoubtedly contributed to the excessively risky lending behavior. Power dynamics in contemporary organizations has shifted and the classical theory of power has been turned on its head. It is no longer the threat of action but of inaction or non-investment. In this new inverse theory of the power relationship, Beck (2008, 796) noted that ‘the only thing worse than being overrun by multinationals: not being overrun by multinationals’ and so HRD practitioners faced with the potential withdrawal of capital investment and possible reduction in their strategic power base acquiesced to the demands of
the wealth maximization dogma particularly prevalent in the banking sectors. HRD practitioners may have lost their voice because it may have become too politically dangerous to speak up and lose investment in developing the organization’s human capital. More crucially, in speaking up they may have risked losing political credibility and position in the organization, ironically, widening the power imbalance gap.

Rigg and Trehan (2008, 378) argued the need to engage in forms of ‘dissonance’ and critical reflection but emphasized the challenges this brings within the organizational context as doing so would ‘challenge the status quo’. Cogently, Sambrook (2009, 67) posited that a ‘key attribute of critical HRD is the awareness of power relations’ and when we contextualize Sambrook’s argument in terms of the crisis it is difficult to remove HRD practitioners from part of the organizational apparatus focused on short-termism and the negative impact that orientation had on society. The myriad of roles and responsibilities that HRD practitioners are tasked with make it difficult in the practitioner world to engage in any forms of iconoclastic pursuit and perhaps the highly charged political banking environment meant that HRD practitioners were more silenced than silent.

HRD practitioners in banking institutions may also have been oppressed but not because they did not have an active voice or were unwilling to challenge the status quo and unequal power relations – but because the theories central to the practice of HRD may have made it almost impossible for them to engage in critical reflection. HRD practitioners may have been delimited, not by the organization’s political or social power imbalance but because they have not been taught how to be critically reflective. Whilst it is difficult to argue with O’Donnell et al. (2006, 7) that ‘HRD owes its legitimacy to Capital’, the recent economic crisis provides an opportunity for HRD to redress the performance-learning, capital-labor dichotomy traditionally associated with HRD. The new focus should be an integrative conceptualization that incorporates some of the arguments of critical HRD
proponents with those of the core tenets of HRD, namely the development of human intellectual capital that is ethically cognizant, organizationally aware and socially responsible.

The suppression of HRD’s voice is likely down to ‘power relations’ where HRD professional’s do not feel they have earned the ‘right to challenge’ the dominant coalition or perhaps challenging what is perceived as accepted knowledge was deemed ‘unwelcome’ (Blackman and Sadler-Smith 2009). HRD professionals who pursue a legitimacy-seeking disposition may believe that they are acting in the best interest of their constituents, organization and society. HRD practitioners lacked the necessary skills to critically evaluate and question their role in the organization believing they were doing the right thing. They were not. Is it the case that HRD practitioners in many failed banking/financial institutions and government agencies were too busy trying to keep their jobs that they forgot how to do their jobs?

Unfortunately, HRD as a profession may have been complicit in the crisis through creating incentives and implementing management & leadership development programs aligned solely with organizational goals and not with their social responsibility (Kuchinke 2010). These misaligned HRD interventions may have communicated the symbolic message that the social impact as a result of excessive risk-taking behavior was less important than the wealth maximization aphorism of the free market dogma. Moreover, HRD’s roles of talent and human capital developer lead to questions about the type of talent and human capital being developed and whether HRD practitioners fundamentally misunderstand what talent and human capital development meant. Mintzberg (2009), Board (2010) and Stacey (2010) all cite management development and management & leadership education as contributory factors in the crisis noting that elite business schools that were more concerned with ‘image and networking than with education’ (Stacey 2010, 45). Ironically, the theoretical frameworks that proposed the shareholder primacy ideology taught in business schools
globally may have also absolved managers and leaders of failed banking institutions from any wrongdoing (Stacey 2010, 44). The behavior of managers and leaders in many banking/financial institutions that have failed as a result of misaligned business strategies justified their actions based on what the theory dictates and by the pressures placed on them by shareholder demands to maximize their wealth. As Ghoshal (2005, 87) presciently argued:

“....if the trend in management theory is to be reversed; only business schools and academics can do so. This is not going to be easy”

Reversing or dislodging the embedded and institutionally accepted theoretical frameworks may be a difficult task for HRD scholars and practitioners but it was not impossible. As Kuhn (1996) noted, merely challenging will fail to dislodges a dominant ideological position; only a better alternative will. The question remains: Are HRD scholars and practitioners willing to challenge the status quo, even if this means losing some of the management respect that they have achieved through not challenging the status quo?

**Business as usual?**

The question of whether HRD has been a “contributor, irrelevant spectator or protagonist” (Stewart et al. 2011) to this current financial crisis can be argued in the affirmative – for all three. Critical reflection of the profession may shift HRD from servants of power to iconoclasts capable of decoding HRD interventions and practices that can balance organizational and institutional power dynamics with social consideration such that a zero-sum outcome is greatly reduced. HRD scholars and practitioners will need to challenge but not alienate. HRD scholars will need to begin to challenge the economic oriented theories of the firm that have the potential to contribute to excessive risk-taking behavior witnessed in the banking sectors over the past decade. HRD practitioners may not possess sufficient business/financial/economic acumen to challenge the dominant coalition due to their limited
financial understanding and lack of alternative theoretical arsenal. In the context of the crisis, HRD may not be directly guilty of an error of commission but by not engaging in critical reflection and challenging the status quo HRD is certainly guilty of an error of omission.

HRD must recognize that power imbalances do exist, organizational voices are sometimes silenced or suppressed and doing things right isn’t always the right thing to do. By reflecting critically on what HRD is and more crucially is not, HRD scholars and practitioners may give voice to those who have none and may provide an emancipatory environment as it seeks to redress the power imbalance that favors knowledge only when it contributes to short-term goals and objectives. HRD scholars and practitioners potentially have the opportunity to demonstrate legitimacy in the organization by engaging in critical reflection that will ultimately result in long-term viability, sustained competitive advantage and an equilibrium position where knowledge truly is power. And with great power comes great responsibility – within and beyond the organization.

One way in which HRD practitioners may be able to engage in genuine critical reflection and give voice to those who have no voice is to, paradoxically; engage in strategic decoupling (MacLean and Behnam 2010) from the organizational apparatus that makes it difficult or impossible to be critically reflective. This is similar to Perrow’s (2008) notion of conservative radicalism whereby the audience is unlikely to embrace a message that is contrary to the dominant orthodoxy. Ironically, the very theoretical frameworks being taught at many business schools are partially to blame for the actions of many in the banking sectors prior to their failure. HRD practitioners will need to incorporate means and measures of long-term impact both organizational and societal into their performance and incentives schemes and will also need to incorporate new ways to address the developmental requirements of the organization as well as the development activities central to their roles. These new measures may go some way to protecting the organization and society from careless and reckless
behavior as a result of a short-term orientation but may also add to HRD practitioners' credibility if they can demonstrate that the organization's human intellectual capital can engage in socially aware performance related strategies. What has become clear as a result of the global financial crisis is that the free market capitalist hegemony is an antithesis to any conceptualization of HRD. The *game* metaphor (Ulrich and Beatty 2001) used in what feels like perpetuity is simply not a good fit for HRD practitioners. HRD practitioners are like the kids in the playground who are always last to be picked for the team usually because they’re not any good at *playing* the game. They’re the water boys/girls, benchwarmers and cheerleaders supporting the captain and the *elite* players. HRD practitioners should recognize they’re not great at playing the game because they don’t understand the rules well enough. Get to understand the rules, the organizational politics and power players and become referees of the game. HRD scholars will be critical in decoding the rules of the game.

Strategic decoupling must also extend to the business schools that are equipping tomorrow’s business managers and leaders with theories and methodologies that make it difficult to challenge the status quo. Momentum may be building in light of prominent experts in the field questioning the applicability of many of these theoretical frameworks in today’s society. In any organizational setting given the economic and financial bottom-line imperative, opposing theoretical frameworks will be a challenge but having the skills necessary to critically challenge the ideological assumptions is a good starting point. This begins in the hallowed halls of academia and the classroom.

**Implications for Theory**

HRD practitioners may need to address their excessively obsequious and accommodating legitimacy-seeking orientation. We propose that the *laissez-faire* orthodoxy adopted by HRD practitioners prior to the economic crisis is no longer a viable organizational fit. We argue that a re-conceptualization of HRD that critiques the dominant, harmful and
under-challenged ideologies, identities [socio-political], interests and institutional dimensions (Alvesson et al. 2009) central to the worst economic crisis since [the] Great Depression is paramount. The opportunity to engage in critical reflection starts in the classroom. HRD scholars have the opportunity to engage the current cohort of undergrad and postgrad students to challenge the assumption and status quo, question the theories that holds shareholder wealth primacy over all other stakeholder demands. As HRD scholars, there is a responsibility to engage students at the early stages of their academic life to pursue a critical orientation and to challenge the status quo. Interestingly, this will involve HRD scholars opening themselves up to critical challenges from their students. The psychological, economic and sociological theories that have been central to HRD research over the last 20 years have been put in perspective. The challenge for HRD scholars is to bridge the gap between scholarly knowledge and practical application and develop theories that reflect a very different world. Stop asking what does the data means and start asking what the data means for practitioners (Van De Ven 2007, 235) – only then we can begin to craft theories that translate across the academic/practice divide.

In the words of Michael Douglas’ character in Wall Street: Money Never Sleeps, ‘It’s easy to get in – it’s hard to get out’ and so, HRD scholars and practitioners are now faced with a dilemma: remain silent, tow the company line and risk having their integrity and trust being called into question, or stand up and be counted, risk losing some ground gained by becoming strategic partners to the business but regain their integrity, trust and professional standing. Do we finally accept that we must develop theories that are humanist, ethically and morally robust and realistically applicable or do we continue to believe in the flawed ideological presumptions of current social and economic theories central to the global financial crisis?

Conclusion
The question therefore remains: Are HRD researchers and practitioners willing to challenge the status quo, reject some [all] of the theoretical frameworks that are part of the wealth maximization ideology or will they remain embedded in the political struggles for power and authority that views HRD as a complicit spectator in organizational processes and practices that place the organization first and individuals and society second? Do we continue to dance to the rhetoric of reasoned and sanitized organizational life? Or do we accept the reality of the messiness and complexity of organizational reality? Do we bow our heads, keep below the radar until the storm blows over and then get back to business as usual? Or do we stand up and be counted, accept that we had a role in the global financial crisis and acknowledge a failure of intellect, knowledge and people was also a failure of HRD. Accepting that organizational life is contentious, ugly and prone to negative outcomes is a challenge and only one half of the problem. The willingness to question the assumptions and challenge the status quo is a more difficult task for both scholars and practitioners - difficult but not impossible.
References


Article Three
The Global Financial & Economic Crisis: Did HRD Play a Role?

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ABSTRACT

The Problem.
The Global Financial and Economic Crisis\(^8\) starting in of 2007 and its resultant impact has called into question the contribution of Human Resource Development (HRD) strategies and practices. With its primary focus on the development of human resources, it could be argued that HRD aligned itself too closely with the strategic goals of organizations, often times profit centric, and failed to provide leaders with the skills, knowledge and values required to question the decisions made by organizations in the pursuit of profit goals.

The Solution.
Utilizing Cognitive Appraisal Theory (CAT), this article draws on the official reports and public inquiry hearings in the US, UK and Ireland into the financial crisis and finds that HRD strategies, practices and processes is one factor which contributed to a culture of excessive risk-taking and ineffective decision making. We outline the implications for HRD theory and practice.

The Stakeholders.
The research findings inform a multiplicity of stakeholders including organizational behaviorists, social psychologists, government bodies, educational organizations & scholars researching strategic HRD in organizations.

Keywords

\(^8\) The Global Financial and Economic Crisis will be referred to as the financial crisis
Introduction

Proponents of strategic human resource development (SHRD) argue that it contributes to the achievement of organizational goals and helps to sustain long-term organizational success (Garavan 2007). This is achieved as a result of SHRD providing policies and practices concerned with developing both people and organizations to ensure that they achieve competitive advantage (McGuire, Garavan, O'Donnell, & Watson, 2007; O'Donnell, Gubbins, McGuire, Jørgensen, Bo Henriksen, & Garavan, 2007). However, there can be a dark side to this contribution, one that results in HRD not acting as a conscience of the organization where it provides counter-balance to the continuous striving for performance and organizational success (MacKenzie et al. 2011; MacKenzie et al. 2012). What becomes clear from financial crises is that the pursuit of profit at the expense of prudent decision making and the development of appropriate corporate governance structures, and the development of an organizational culture that challenges excessive risk-taking behaviors, results in very significant global, national and organizational consequences (McDonald 2009, p. 195; Stiglitz 2010). Official Government reports in the US, UK and Ireland highlight three particular failures that contributed to the financial crisis: leadership capability issues, the emergence of excessive risk-taking cultures, and the lack of management skills and capabilities throughout organizations (FCIC Report 2011; Honohan 2010b; Treasury Select Committee 2009a). These failures are ones that SHRD, as a set of strategies, practices and processes, is designed to ameliorate or at least minimize. This article utilizes the theoretical lens of Cognitive Appraisal Theory (CAT) of emotion (Krehbiel and Cropanzano 2000; Roseman et al. 1990; Thoresen et al. 2003) to understand how SHRD practices and strategies contributed to failure in financial organizations as evidenced by the global financial crisis. Social psychology-based theories provide an alternative perspective to economics-based HRD theories. Economics-based
theories posit that SHRD performs traditional economic/performance roles in organizations (Collins and Clark 2003; Ghoshal 2005; Helfat and Peteraf 2003; Pandey and Chermack 2008; Peterson 2008). However, in doing so, they potentially end up “undermining their strategic value” (Greenwood 2013, p. 361) because of the implementation of practices and strategies that contribute to dysfunctional organizational behavior, excessive risk-taking, organizational narcissism, and toxic cultures that ignored the harmful effects of organizational actions. SHRD did not intentionally contribute to this state of affairs; however, SHRD may have unintentionally contributed to these outcomes. Therefore, we utilize CAT to understand how SHRD contributed to the behavior of individuals in financial organizations, which led to the financial crisis.

The paper is structured as follows: we first outline the key theoretical foundations of cognitive appraisal theory and its relevance to explain the contribution of SHRD to the failure of financial organizations. We then explore the contribution of SHRD to the financial crisis through cognitive appraisal theory.

Cognitive Appraisal Theory

Cognitive Appraisal Theory argues that emotions are inextricably linked with judgments about positive/negative outcomes (Frijda et al. 1989; Kiffin-Petersen et al. 2012). Emotions are bi-products of both primary and secondary [cognitive] appraisals (Roseman et al. 1990) and individuals make outcome appraisals based on two criteria: valence & agency. These appraisals elicit an emotional response relative to the alignment of a goal or objective. Where individuals experience positive emotions, it can contribute to affective organizational commitment (Choi et al. 2011; Herrbach 2006; Thoresen et al. 2003) and as a consequence, these individuals may find it difficult to differentiate harmful from benign behaviors. Figure 1 proposes a framework to illuminate the contributions of SHRD that led to positive emotions and resulted in behaviors that contributed to organizational dysfunction. Our model consists
of four components: 1) contextual factors impacting emotions, 2) cognitive appraisal, 3) emotional reaction, and 4) propensity for organizational dysfunction. We discuss each of these components in turn.

Figure 1: Theoretical Framework

Contextual Factors Impacting Emotions

Focus on Alignment & Performance

HRD policies, practices and processes consist of the system of organizational level interventions, decisions and actions taken to develop human capital and contribute to organizational performance. HRD policy and practice should be aligned with organizational strategy and objectives. This system, if effectively designed, leads to both additive and synergistic outcomes. When poorly designed, the opposite is true. Despite arguments that people are the most valuable resource for the organization, human capital developers do not enjoy much by way of power and respect (Bierema 2009) often seen as simply “supporting or dependent on” rather than driving the organizations goals, objectives and success (Fenwick
Paradoxically, the question arises: what happens when HRD does drive organizational goals and objectives? Peterson (2008, p. 93) suggests that SHRD has the capability to “design and develop programs to support skills demanded by the business strategy” which might motivate employees towards “higher performance”. While the benefit to HRD of this performativity orientation will likely result in increased organizational legitimacy and credibility, HRD is exposed to risk asymmetry by focusing too much on performance as a measure of alignment with organizational goals.

Where HRD strategies are asymmetrically aligned, there is an increased likelihood that both the motivational and situational state of employees will also become asymmetrically influenced. Consistent with the arguments of CAT, employees who perceive positive outcomes as a result of SHRD policies, practices and processes are more likely to exhibit positive emotions, which then increase their affective organizational commitment (Thoresen et al. 2003). The problem for SHRD is that while increased commitment to the organization can be viewed as a positive outcome, it may lead to extreme behaviors that employees believe are legitimized given they align with HRD organizational goals centered almost exclusively on firm performance and profit (Werbel and Balkin 2010).

**Organizational & Leadership Capability**

SHRD has a primary responsibility for the development of both organizational and leadership capability (Garavan 2007; Peterson 2008). This is achieved through the implementation of policies, practices and processes such as organizational development interventions, learning organization models, mentoring, coaching & multisource development programs (Garavan et al. 2010). Leadership capability is considered a fundamental contributor to sustained competitive advantage (Barney 1991; Lei and Slocum Jr 2005; Teece et al. 1997). It is arguable that not enough attention was focused on developing leadership capability to question strategies and plans and not simply ‘follow the crowd’. Many leaders in
financial organizations found themselves subjected to pressures to be creative and be innovative and to focus on short-term outcomes (Barth et al. 2012; Board 2010; Stiglitz 2010). They lacked the emotional resilience, critical judgment and independence of decision-making to resist these pressures or at least question them. Therefore, consistent with the arguments of cognitive appraisal theory, the emphasis on short-term returns and financial innovation influenced how they appraised and rationalized outcomes to be more positive than was reasonable or appropriate. Given the dynamics of senior leadership teams, emotions can become contagious through conscious and unconscious emotional states and behavioral attitudes (Barsade 2002). These processes resulted in too much focus on the end result i.e. profit and unsustainable growth leading to organizational cultures and climates detrimental to longer-term organizational success.

**Organizational Culture and Climate**

SHRD practices have a major contribution to make to the development of both culture and climate. Organizations consist of both a culture and climate which impact on how employees perceive events and the types of behaviors that are acceptable. Organizational climate reflects shared perception of policies, practices and processes, which influence employee behavior (Schein, 2004). Organizational climate is an important variable to consider when exploring employee behavior as an organization can have multiple simultaneous climates. These simultaneous climates represent both a process perspective or day-to-day climate and a strategic climate, which may be focused on economic/financial goals. Culture on the other hand reflects the shared basic assumptions values and beliefs (Schein 2004) central to an organization and socialized to newcomers inculcated to think, act and feel based on the organization’s history and how it dealt with external adaptation and internal integration (Wines and Hamilton 2009; Zohar and Luria 2004). Particular types of organizational cultures lead to collective feelings of empowerment, belonging, teamwork and
commitment to the organization (Barney 1986; Kerr and Slocum Jr. 2005; McLean 2005). Garavan (2007: 19) argued that the firm’s culture provides direction for the development and delivery of “integrated and coherent SHRD systems”. The delivery of these practices however, often responds to, rather than influences organizational culture. Foote and Ruona (2008) have argued convincingly that the role culture plays in an organization is a critical dimension in driving behavior and delivering on organizational initiatives. Indeed, Foote and Ruona contend that culture is “dictated” (p. 305) by infrastructural factors such as processes and practices, codes of conduct, disciplinary process and realistic objectives.

Consistent with the arguments advanced by CAT, both culture & climate can elicit a positive emotional response that can improve organizational commitment and affective dispositions towards the organization. It also has the capacity to influence behavior that is deviant, counterproductive, and at times unethical (Ashforth and Anand 2003; Ashforth et al. 2008; Kish-Gephart et al. 2010).

Cognitive Appraisals and Emotional Reactions

Our model proposes that SHRD policies, practices and processes may have contributed to the development of cultures and climate that embraced excessive risk and poor decision-making. It is arguable that leadership in many financial organizations also influenced employees to make overly positive cognitive appraisals of decision outcomes. In line with cognitive appraisal theory, research has shown that emotional reactions tend to result from cognitive appraisals of an event (Butt and Choi 2006; Gross and D'Ambrosio 2004). Cognitive appraisals can be perceived as beneficial where they will result in desired or positive outcomes. Alternatively, cognitive appraisals could be perceived as detrimental where they result in negative outcomes. SHRD policies and practices that reward certain types of economic/results-focused behavior have the potential to send out a “symbolic message” (Werbel and Balkin 2010, p. 319) to other individuals that the behavior is not only
acceptable but legitimate. In contrast, HRD policies, practices & processes can contribute to a culture or climate that sends out messages that certain behaviors are unacceptable. In this case, individuals will appraise the situation and potential outcomes in a more negative manner and this may invoke emotions such as anger, frustration and distress. The individual making a cognitive appraisal of the situation that may result in a negative outcome may perceive HRD policies, practices and processes to be an impediment to the attainment of organizational goals and objectives. Organizational leaders may try to circumvent those policies and practices and engage in behavior that is counterproductive and dysfunctional (Stein and Pinto 2011a). The propensity for organizational dysfunction is highlighted as a key outcome in our model. These dysfunctional behaviors may include excessive risk-taking, disregard for regulatory requirements, the use of models and work processes where outcomes are unknown or not sufficiently tested, and the pursuit of short-term objectives (Fligstein and Goldstein 2010; Riaz 2009; Stein 2011).

In sum, this paper uses a CAT perspective to explore HRD’s role in the global economic crisis. Contextual factors including culture and climate, organizational leadership and development policy and practice, and the focus of alignment of HRD policies with organizational strategy can impact cognitive appraisal and emotional reactions in organizational decision-making which subsequently impacts the propensity for dysfunctional behavior as seen in the global financial sector. The next section explores how we operationalize CAT in analyzing decision-making leading to the current economic crisis.

METHODS

The financial crisis has provided a unique opportunity to explore difficult-to-study sensitive organizational events such as crises, disasters and failure. This sensitive organizational data was analyzed utilizing public inquiry transcripts and internal documentation providing a level of detail not otherwise available to management and
organizational scholars (Gephart 1993, p. 1466). The financial crisis is perhaps best described as an **umbrella crisis** that comprises a *subprime crisis, liquidity crisis, sovereign debt crisis* and *Eurozone crisis*: essentially, the defining financial and economic crisis of our time. Our data spans multiple countries (US, UK and Ireland) and reflects the crisis years in the period 2007 – 2012.

**DATA SOURCES**

Primary US data consisted of video/audio testimony provided by witnesses to both the Financial Crisis Inquiry Commission (FCIC, 2010) and the US Senate Permanent Subcommittee on Investigation (Senate Hearings, 2010). Primary UK data consisted of the House of Commons Treasury Select Committee (HCTC, 2009) oral hearing transcripts. The list of informants included banking and finance professionals, central bankers/Federal Reserve governors/regulators, government officials, academics and quasi-regulatory (ratings agency) professionals. In total, 250+ hours of video/audio testimony were viewed and reviewed. The transcripts from the UK and US public inquiries totaled 7463 pages with approximately 2500 pages of follow-up/supplementary evidential documents. In addition to the primary data mentioned here, we also reviewed relevant secondary data: official reports on the financial crisis, meeting minutes, memos, email correspondence between many of the institutional actors at the center of the crisis as well as organizational goals and strategy communications documents. While unable to gain access to interview transcripts from witnesses central to the Irish banking crisis, we analyzed the official Irish banking crisis reports (see Honohan, 2010, Nyberg, 2011, Regling and Watson, 2010).

**DATA ANALYSIS**

*Deriving Concepts and Themes*

Before importing our data into a computer-assisted qualitative data analysis (CAQDA) software package (NVivo), we employed a multi-step, multi-phase approach to
analyzing it. Stage one focused on viewing the public inquiry hearings and downloading all the inquiry testimony transcripts and secondary sources of data such as official reports in PDF format. During this phase, we read without analysis or coding to get a feel for the content of the documents (Bryman and Bell 2007). Following this, we analyzed the raw data; doing so allowed the highlighting of text we deemed important. In the initial phase, we viewed and re-reviewed available video and audio testimony from each of the public inquiries developing ‘field notes’ to refer to during the concept/theme development.

Following the importing of the highlighted witness testimony transcripts, we began a search for key words associated relevant to the focus of the current our paper. The key text searches included but were not limited to: management/leadership failures, organizational culture, rewards/incentives, HRM/D strategy, emotions, anxiety, stress, decision-making, dysfunction, pride, guilt, anger, fear, distress, organizational identity, irresponsible behavior, corporate irresponsibility. As we located these words during our text searches, we set about assigning preliminary broad theme categories and utilized the highlighting tool in NVivo to mark the text.

The second phase yielded some interesting insights. For example, despite many mainstream commentaries about ‘bonus cultures’ and ‘mis-aligned incentives’ it emerged that some actors engaged in these behaviors as a result of ‘professional pride’ (Nyberg 2011, p. 31) or a sense of camaraderie which reflected identity affiliation more so than wealth maximization. Using NVivo, we retrieved a total of (1280) quotes that matched our criteria. The dominant themes that emerged were coded in NVivo nodes and sub nodes with annotations assigned to signify their importance for later analysis. A number of preliminary themes emerged in line with CAT and HRD such as: misaligned incentive, culture/climate issues, leadership failures, power structures, regulatory tension, intellectual asymmetries,
behavioral issues, ‘dark side’ dispositions, power playing, rewards and incentives failures, management failures, and organizational development failures.

We categorized the organizational and institutional actors into 11 actor categories and coded accordingly, for example: Actor Type [Government], Actor Category [Regulatory], and Actor Country/Origin [US/UK/Ireland]. To minimize researcher bias, each of the authors reviewed the preliminary and secondary codes to ensure that researcher interpretation bias was minimized. The final phase came after each of the researchers had spent time reviewing the data. We deployed an iterative process (Miles and Huberman 1994) between the video testimony, interview transcripts, our ‘field notes’, official reports, and the literature to confirm our second-order codes.

STUDY FINDINGS

We use our conceptual model presented in Figure 1 to structure the reporting of our findings, thus, we highlight the Contextual Factors, Cognitive Appraisal, Emotional Reactions, and Propensity for Organizational Dysfunction as separate areas of analysis.

Contextual Factors

The Focus on Alignment & Performance

The notion that financial organizations were over focused on alignment with business objectives and the achievement of organizational performance is one that is revealed in our analysis. The consequences of this over-alignment is revealed in the following indicative quotes:

Our members have told us that…the pursuit of sales, the intensifying pressures on staff through performance targets, combined with reductions in staffing levels, increased pressure for deposit-taking without any real regard for the needs of customers or their impact on staff – the situation is getting worse (IBOA 2011, p. 25).
The only negative factors to consider were some amorphous concepts of reputational risk. In other words, the ratings agencies faced the age-old and pedestrian conflict between long-term product quality and short-term profits. They chose the latter (FCIC Hearing 2010e, p. 20).

Bank management and boards generally gave in to this pressure [profit seeking], in the bigger banks more so than in the smaller ones. Strategies chosen included concentration on retaining market share, increasing earnings growth and protecting the banks’ franchise (Nyberg 2011, iv).

Organizational & Leadership Capability

Our analysis revealed that organizational & leadership capacity issues were critical contextual factors influencing the financial crisis. This extract from the Senate Hearings in the US revealed how leadership capability issues in Moody’s lead to particular ratings:

At Moody’s, the source of this conflict was the quest for market share.

Managers of rating groups were expected by their supervisors to build, or at least maintain, market share. It was an unspoken understanding that loss of market share would cause a manager to lose his or her job (Senate Hearings 2010b, p. 15).

Another example of leadership capability issues is revealed in this extract from the Office for Thrift Supervision in the US:

.... like other bank regulators, OTS was supposed to serve as our first line of defense against unsafe and unsound banking practices, but OTS was a feeble regulator. Instead of policing the economic assault, OTS was more of a spectator on the sidelines, a watchdog with no bite, noting problems and making recommendations, but not acting to correct the flaws and the failures that it saw. At times, it even acted
like a WaMu guard dog trying to keep the FDIC at bay (US Senate Report 2010, p. 15).

Another example of leadership capability issues can be seen in Eric Kolchinsky’s email. He was one of Moody’s Managing Directors in charge of the business line that rated subprime-back collateralized debt obligations (CDO’s) in this extract from the US Senate’s legally obtained exhibits:

*Email from Moody’s Eric Kolchinsky 8/22/07 Subject: “Deal Management”:* 

> It would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in the model derived ratings to outstanding transactions and when it won’t...we are not being as transparent as we need to be (Moody’s Town Hall meeting, September 2007).

The scale of the leadership capability issues is clearly elucidated by the Chairman of the Financial Services Authority in the UK as he calls into question the intellectual and ideological apparatus that underscored much of the thinking in many banking institutions:

> It was believed and said by many influential authorities that the development of the model of securitized credit, structured credit, and credit derivatives...contributed to a ‘Great Moderation’ in financial and economic risk. This turned out to be diametrically wrong

(FSA 2009, p. 5)

The focus on alignment was premised on the notion that employees possessed the knowledge and skills to make decisions that ensured the long-term survival of the organization. This misjudgment of the skills & capabilities is illustrated in the following exact:

Management misjudged their capabilities and the capabilities of their elaborate risk-management systems, like VaR, to keep their institutions solvent….transparency diminished so much that firms
were not prepared for the extraordinary, the so-called black swan event (FCIC Hearing 2010b, p. 124).

Organizational Culture and Climate

Our analysis revealed that both organizational culture and climate were particularly important contextual factors shaping the cognitive appraisal of leaders and employees in a multiplicity of organizations. The following extract from the UK Treasury Select Committee’s hearing into the UK banking crisis depicted a “locker room culture” at the board level at RBOS:

In a written submission to us, Paul Moore, former Head of Group Regulatory Risk at HBOS, argued that HBOS had “a cultural indisposition to challenge” and that the task of “being a risk and compliance manager … felt a bit like being a man in a rowing boat trying to slow down an oil tanker” due to the prevalence of the sales culture in HBOS (Treasury Select Committee 2009a, p. 434).

Although the “locker room culture” at board level in RBOS indicated an embedded appetite for risk and disregard for the impact of poor decision making, organizational climate issues which reflect the shared perceptions of the policies, practices and processes that are legitimated within the organization was a much more insidious problem that extended beyond the banking institutions. As this extract from the US Senate hearings indicates:

…the small AIG unit that handled these transactions pushed its huge corporate parent to the brink because it operated “in a climate of opulent pay, lax oversight and blind faith in financial risk models (Joint Treasury – FDIC Report on WaMu, April 2010).

The prevailing climate evident prior to the initial credit crunch in early 2008 is highlighted in this extract by Regling & Watson (2010, p. 15), independent consultants commissioned to provide a preliminary investigation of the Irish banking crisis: “…there
were strong incentives to fight for market share during prolonged credit and asset price booms – while cross-border funding markets provided ever more ample liquidity to do so”.

Cognitive Appraisal

Perceived Detriment (sanction/reprimand)

Our analysis found that the cognitive appraisals made primarily by decision-makers reflected both their motivational state, that is whether the individual perceived the situation as adverse [i.e., punishment likely] or appetitive [i.e., reward is likely] and their situational state, that is whether the motivational state is present. Given these influences, decision makers assess the relative likelihood of reward or punishment for their actions. Appraising the situation as motive-consistent will produce a positive emotion whereas appraising the situation as motive-inconsistent will result in a negative emotion. Within banking organizations, the cognitive appraisals individuals engaged in proved challenging for some employees who knew they were engaging in practices that were questionable but did so because of peer pressure, power/authority structures or fear of losing job security as the following extracts highlights:

“I have always taken a lot of pride in advising my clients to do what I believe is right for them, even if it means less money for the firm.

This view is becoming increasingly unpopular at Goldman Sachs.

Another sign that it was time to leave”.

(Greg Smith former Goldman Sachs executive director (Smith 2012)).

Perhaps a clear example of why individual regulators who oversaw banking institutions in Ireland, the US and UK were affected by cognitive appraisal of perceived detriment is summed up in this extract by Professor Patrick Honohan Governor of the Central Bank of Ireland:
[There was] an unwillingness by the CBFSAI to take on board sufficiently the real risk of a looming problem and act with sufficient decision and fort to head it off in time. “Rocking the boat” and swimming against the tide of public opinion would have required a particularly strong sense of the independent role of a central bank in being prepared to “spoil the party” and withstand possible strong adverse public reaction

(Honohan 2010b, p. 16).

In these indicative extracts, we can see the motivational and situational cognitive appraisal some individuals engaged in when making their decisions. In these examples, individuals were faced with either the potential for reprimand or sanction, and, in the case of Greg Smith for Goldman Sachs, a moral appraisal.

*Perceived Benefit (reward/incentive)*

Whilst there is considerable debate on the role incentives played in the decision-making process, it is clearly a valance factor that influenced some of the more questionable decisions, including some now infamous ones as these extracts illuminate:

The design of reward systems in the banks….meant there was a potential for bankers to be rewarded for taking undue short-term risks rather than taking a longer-term view. For instance, cash bonuses awarded on the immediate results of a transaction and paid out instantly meant individuals often paid little or no regard to the overall long-term consequences and future profitability of those transactions

(House of Commons Treasury Committee 2009, p. 12).

From our perspectives in the CDO group, we used ratings, just plain old ratings as determinants of the default probability of the underlying securities. We did have this discount purchase rule to sort of look at scenarios where
prices were really showing something very different than ratings; but as I said before, the bankers had a lot of ways to get around that rule and they did” (FCIC Hearing 2010e, p. 139).

Consistent with CAT, these extracts provide some evidence those cognitive appraisals of the individual place a significant emphasis on the motivational and situational state of the individuals making those decisions.

Emotional Reaction

*Negative Emotions (fear/anger/guilt/distress)*

As CAT argues, cognitive appraisals consider motivational and situational variables in the decision-making process of the individual; however, the emotions that are invoked during this process provide insight into the emotional state of individuals faced with choices that are either consistent with their cognitive appraisal of the situation or inconsistent with the appraisal. The following extracts are indicative of emotional reaction at play:

After 32 years working for the bank – almost 30 of those proud years – I wouldn’t admit in public now to working for them. I am so ashamed of my employer and the fact that no senior management has been held accountable

Bank employee (IBOA 2011, p. 24).

OTS went further. It actually impeded FDIC’s examination efforts. It denied the FDIC examiner access to WaMu data, refused for several months to assign him space on site at the bank, and rejected his request to review bank loan files. When the FDIC urged OTS to lower WaMu’s rating, the OTS resisted. OTS fought this turf war at the same time the largest financial institution it was supposed to regulate was losing value, capital, and deposits (US Senate hearings 2011b, p. 7).
In the extracts above, we can see the emotional reaction of anger from a frontline bank employee when faced with a decision to engage in conversation with somebody outside of their working environment. It is clear in this instance that both contextual and associated cognitive appraisal led to a very negative emotional reaction [anger/distress] at being ‘associated’ with working for ‘them’. In the US Senate hearing exchange, what is particularly interesting is the ability of an individual (the director of the OTS) to display both positive emotions (pride in his working relationship with a bank under his supervision) and anger that a fellow regulator (with the FDIC) would propose how to approach serious liquidity and capital ratio issues.

Positive Emotions (pride/joy/happiness)]

There were some references to positive emotions such as pride for working for certain organizations in the data analyzed as the following indicative extracts highlight:

I think that regulators in the future can do a very much better job than in the past in leaning against the winds of exuberance, and exuberance includes organizations being convinced that they are on a roll which is unstoppable…I think the fundamental issue here is rooted in human nature and institutional cultures Lord Turner (UK Hearings 2009, p. 286).

I joined Goldman Sachs in 1989 as an analyst after graduating from college. My intention was to stay for two years, and I ended up staying for nineteen. I would not have stayed if the people I worked with did not have high ethical standards. The culture at Goldman Sachs as one in which excellence and integrity were expected (US Senate hearings 2010, p. 12).
The utility of CAT to illuminate the emotional states that play a part in employee decision-making processes is of great importance. It highlights various decision-making triggers or antecedents, which can be environmental, political or related to a sense of identity, or belonging to the organization.

*Propensity for Organizational Dysfunction*

Whilst the main features of CAT reflect Contextual Factors, Cognitive Appraisals and Emotional Reactions to decision-making, it is important to highlight the potential impact of these on the adoption of dysfunctional behaviors at a collective level. In the context of the financial crisis, contextual factors played a role in creating an environment, which in turn influenced the cognitive appraisals of individuals, and these appraisals were myopically positive in that only reward/incentives were the outcomes considered. Taken together, contextual and cognitive appraisal factors skewed the emotional reaction of many decision-makers in two ways: 1) the emotional response was legitimized by the contextual factors 2) emotional response was institutionalized in the rewards/incentives reflective of the motivational and situational state. Combined, these factors when improperly aligned have the capacity to result in a collective propensity for organizational dysfunction as the following extracts highlight:

It is true that the market is not pricing the subprime RMBS wipeout scenario. In my opinion this situation is due to the fact that rating agencies, CDO managers and underwriters have all the incentives to keep the game going, while ‘real money’ investors have neither the analytic tools nor the institutional framework to take action before the losses that one could anticipate based [on] the ‘news’ available everywhere are actually realized (US Senate Report 2010, p. 348).
Consider the incentives created by these factors. The rating agencies could generate billions in revenue by rating instruments, which few people understood. The lack of guidance from private and public users of ratings ensured that there’s little concern that anyone would question the methods used to rate the products (FCIC Hearing 2010e, p. 20).

This pervasive pressure for consensus may explain why so many different parties in Ireland simultaneously were willing to adopt specific policies and accepted practices that later proved unsound….a number of banks essentially appear to have followed the example of peer banks in a “herding” fashion; there is little evidence of original critical analysis of the advantages and risks of the policies…a tendency to favor silo organization and submissiveness to superiors strengthened this effect, particularly among the public authorities (Nyberg 2011, iv).

As the extracts above highlight, the propensity for organizational dysfunction take a number of forms from an organizationally accepted locker room culture, evident in the exchange between Senator Carl Levin and Daniel Sparks, to more nuanced ‘intellectual imbalances’ highlighted in both the US Senate Report and Financial Crisis Inquiry Commission, to an institutionalized form of collective thinking legitimized through fear of sanction or reprimand rather than an ability to critically analyze market conditions and make an objective decision based on those conditions. In the context of the financial crisis and banking organizations, one of the most evident forms of dysfunctional behavior is reflective of an organizational / institutional form of extreme narcissism.

Extreme narcissistic behaviors include: attributional egotism (blaming external factors for negative outcomes), sense of omnipotence (exaggerated pride in ones abilities), a sense of omniscience not based on fact (the presumption that the collective within the organization is
all-knowing within its environment), and exhibit triumphant contempt (tendency to deride/castigate the ‘contrarians’ who identify potential weaknesses in decision-making) (Brown 1997; Stein 2003, 2011; Stein and Pinto 2011b). These narcissistic behaviors may have become normalized and institutionalized within an industry with limited transparency, intellectual asymmetries and powerful coalitions. CAT provides a theoretical lens with which to unpack the decision-making behavior of many banking professions/institutional actors based on their cognitive appraisals and emotional reactions to the choices they are faced with.

Discussion and Conclusions

In this paper, we utilized the theoretical lens of cognitive appraisal theory to understand the possible contribution of SHRD to the failure of financial organizations. We believe that there is sufficient theoretical justification for such an analysis. MacKenzie, Garavan and Carbery (2012, p. 2) argued that “aligning HRD strategy too closely with the organizational strategy in pursuit of sustained competitive advantage” was problematic due to unwittingly contributing to power asymmetries. This argument centered on the contention that HRD is both legitimacy-seeking in that it strives to be at the leadership table so as to influence business strategy (Peterson 2008, p. 93) but is also credibility-seeking in translating human capital into financial bottom-line figures (Fenwick 2005; O'Donnell et al. 2006). In short, intellectual capital is a “resource to be exploited for the benefit of the organization’s owners and shareholders” (O'Donnell et al. 2006, p. 7).

In the context of the financial crisis, the push to align with unrealistic organizational goals resulted in SHRD exacerbating the extent to which organizational cultures and climates communicated and reinforced that excessive risk-taking behaviors were appropriate. SHRD also failed to focus on developing the skills of leaders to ask questions and challenge the dominant logic of the market place and became too focused on alignment creation of a symbolic message in which the only objective was to increase market share and profitability.
SHRD also failed to focus on alignment and failed to develop the skills of employees to understand the consequences of their actions. HRD is expected to justify its role in the organization through various performance metrics; however, cognitive appraisal theory potentially provides insights into the cognitive appraisal made by organizational decision-makers that invoke emotions that contribute to behavioral intent. HRD plays a central role in the development of managers, leaders and the organization; its practices are an integral component of the organization’s cultural infrastructure as Kuchinke (2010, p. 576) succinctly notes:

The character and culture of institutions and organizations are in no small amount shaped by HRD through strategic decisions related to workforce issues and through specific interventions such as workforce training, professional and leadership development, organizational change, and knowledge management.

**Implications for HRD Practitioners**

While HRD practitioners have much to contribute to organizations and institutions through policies, practices and processes, they must seek to balance the needs of human resources with economic imperatives and pressures. The first step is in recognizing the limitation in economics-based theories that underscore HRD. Adopting the CAT perspective, we argue that alignment with organizational goals promoted growth and profitability and created conditions for an appetitive motivational state. This appetitive state combined with shared positive emotions that proved to be irrational in that they became normalized and institutionalized resulting in the widespread adoption of dysfunctional behaviors in the financial sector such as excessive risk-taking, feelings of invulnerability, and the dismissal of contrarian opinions that challenged decision-making. The utilization of CAT in the analysis
of the decision-making behavior of banking institutions highlights narcissistic behaviors evident at a field level of analysis that warrants further investigation.

The organizational narcissism hypothesis appears as a theme in the commissioned reports exploring the Irish banking crisis. Nyberg (2011) observed that Groupthink offered an explanation for the collective ‘irrational’ behavior of Irish banking institutions. Although the symptoms of Groupthink are similar to narcissistic characteristics, Nyberg did not consider organizational narcissism as a potential issue even though he cites Groupthink as endemic in Irish organizations and institutions. What is clear from the empirical data is that irrational and dysfunctional organizational behavior did not exist in a vacuum, nor was it confined to a single financial institution – it was behaviorally systemic, institutional legitimized and cognitively embraced. Therefore, the question arises as to how SHRD does not repeat its economic-centric failures and refocuses on people taking a more enlightened and self-aware approach to balancing profits with social concerns. SHRD’s role in the wider HR architecture is focused on developing organizational culture and climate, developing organizational management and leadership capacity, and managing organizational development (Gold et al. 2009, pp. 28-29). The HRD profession will continue to play a central role in support of the competitive strategy for many banking organizations in the future but we may now need to show more symmetry in our theoretical model. Warren Buffett (FCIC Hearing 2010e, p. 264) once referred to securitized products as “instruments of mass destruction” but perhaps we, as developers of human capital, need to recognize that the people and organizations we develop also have the potential to contribute to dysfunctional behaviors and adverse outcomes. Understanding what drives behavior should be the new focus of HR orientations, policies and practices.

As practitioners in a very turbulent economic environment, we must face these challenges with courage, conviction and commitment to the organization’s most valuable
asset. However, at the same time, we must balance these challenges with aligning HRD objectives with organizational strategies that may - in extreme cases - threaten the organization’s very stability. This is no easy task. As scholars, we must challenge ourselves and develop our own theories about people, organizations and institutions. We need to move beyond economic centric theories that have historically allowed us to be perceived as legitimate and current among our academic peers and embrace the value of psychological and social-psychology theories that reflect human behavior, cognition and emotions – fundamental factors in human actions. The financial crisis signals a call to action for the profession: how we respond to that call will either see HRD scholarship and practice flourish in its newfound legitimacy or flounder it is inability to effectively impact how organizations pursue sustainable organizational results.

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“There is only one way to avoid criticism – do nothing, say nothing, and be nothing”

Aristotle

5.1 Introduction

Exploring organizational failure is fraught with many challenges; those challenges are exacerbated when organizational failures may have been as the result of endemic and legitimized dark side behavior. Researchers face a multitude of obstacles when pursuing their research agendas; however, these obstacles become more acute when their research focuses on un­cloaking root causes of human failure associated with dark side behaviors. The sensitivity associated with pursuing dark side research can be made even more sensitive if analysis of the data indicates potential failures in HR policies, practices and processes. Given one of the functions of HR is to develop the organizations human intellectual capital – there were significantly more reasons not to pursue this research agenda than there were reasons to pursue it; especially when it appeared that pursuing the research may have shone a spotlight on the contribution of HR to organizational failure rather than sustained competitive advantage. Arguably, the failure of people in an organization can often be as the result of the failure of HR interventions, strategies and leadership. The driving force behind pursuing this research was the desire to not be afraid to ask the difficult questions; even if the answers reflected negatively on the scholarly conversation we were joining.

Having presented the published articles in Chapter Four, this chapter will concludes with a review of the contribution of the overall research. Firstly, this chapter will re-examine the overall aim and objectives of the research and identify how and where these objectives were achieved. Secondly, this chapter will illuminate the contribution of this thesis under three distinct categories: conceptual and empirical, methodological and practical. Following this,
the limitations of the research will be identified. Finally, the chapter concludes with some thoughts around future research and what conversations this research might be joining, starting and disrupting.

5.2 Revisiting the Research Aims and Objectives

In order to fully understand the contribution of this research, it is important to examine where it started and what aims and objectives were envisioned. The primary research aim of this thesis was to explore the cognitive and behavioral dimensions of dark side organizational behavior in the context of the global financial and economic crisis from a HR perspective. From this broad research aim, three research objectives were identified:

- Identify and describe antecedent conditions that can contribute to dark side organizational behavior using the global financial crisis as the context
- Explore the theoretical underpinning of Human Resource Development in determining how this has the potential to facilitated, legitimate and normalize dark side behaviors in the context of the financial crisis
- Examine whether cognitive and behavioral dispositions developed into dark side organizational behaviors within the field of banking and finance and address the implications for HR

Each of these research objectives was addressed in the three published articles. The first research objective that explored antecedent conditions that could contribute to the embedding of dysfunctional behaviors was primarily addressed in the first article, although it is a theme that has been consistent across all publications. The second research objective, which examined the theoretical underpinning of HRD and how this might be linked to the behavior evident in many banking institutions, is addressed primarily in the second article, although again this objective is addressed in all three published articles. The third research objective,
which considered how cognitive and behavioral dispositions might have developed into dark side behaviors, is addressed primarily in the third article. The overall contribution of each of the published articles is discussed under the three main categories of conceptual and empirical, methodological and practical contributions.

5.3 Contribution of PhD

5.3.1 Conceptual and Empirical Contribution
This thesis makes a number of conceptual and empirical contributions to the literature on dark side organizational behaviors by drawing upon a multi-country database derived from the public inquiry data sources in exploring the causes of the financial crises in Ireland, the UK and the US. In doing so, it makes a contribution to the ongoing dark side behavior debate in the HRM and HRD, organizational behavior and leadership literature. The first article takes a multi-level perspective to highlight antecedent organizational dimensions that have the potential to result in the normalization and institutionalization of dark side behaviors. This article addressed the first and second research objectives aimed at identifying and describing antecedent conditions that can lead to dysfunctional organizational behaviors. This article contributes to the growing number of multi-level analyses of dark side behaviors (e.g. Boddy 2011; Boddy 2014; Bollaert and Petit 2010; O'Boyle et al. 2012; Sørensen 2014) and potentially provides HR practitioners with insight into how to circumvent these behaviors from becoming institutionalized while at the same time provides HR scholars with a synthesis of extant literature on dysfunctional [dark side] behavior.

The first article also makes a conceptual contribution by proposing a new HR role - the Organizational Governance and Agency Mediation Role [OGAM] aimed at senior HR practitioners. This conceptual role posits that senior HR practitioners can make a valuable contribution to the organization by moving into a governance role that has the capacity to
reduce the potential of dark side behaviors becoming institutionalized within the organization. Barth et al. (2012) argued that while external regulatory enforcement was complicit in the failure of many global financial institutions, internal regulation should have been more robust. Moreover, Bart et al. (2012) suggested that a greater understanding of the behavioral drivers such as incentives to game the system should be key strategies for future corporate governance interventions. Interestingly, the call for greater governance of human behavior has come largely from outside the HR community (for exceptions see Ardichvili 2013; Ardichvili et al. 2012; Campbell et al. 2011; Elliott 2013) perhaps highlighting the importance of a more strategic organizational governance role for future HR leaders.

The potential positive impact of this role is also illuminated by Blackburn (2006: 43) who lamented the transient nature of the organization’s workforce which he described as “disposable” and it is this impermanence that highlights the challenges faced by many HR practitioners as they attempt to balance the needs of the organization with the needs of its human workforce. In his critique of the financialization of the corporation, Blackburn suggested that contemporary organizations were little more than “accidental bundles of liabilities and assets….there to be rearranged to maximize shareholder value” (p.43). The irony here is that HRM and HRD practices that seek legitimacy and credibility by facilitating this flexibility, run the risk of enabling dark side behavior potentially damaging the organization’s viability in the long-term (Thompson 2011) as well as their own legitimacy and credibility. The OGAM role has the potential to make a meaningful long-term contribution to organizational functioning both within and outside the organization. The parallels between failures of regulatory agencies and the failures of the practice and study of HR are striking. While regulatory agencies in countries impacted by numerous banking were tasked with regulating and ensuring those institutions conducted business in a prudential and socially responsible manner - HR practitioners in those organizations aspired to ensure
organizations behave in an ethical and sustainable manner. Unfortunately, both regulatory approaches were hampered by institutional logics and market pressures to achieve unrealistic performance objectives. Regulators, according to Honohan (2010b: 9) took an “unduly differential approach to the banking industry” exhibiting “a reluctance to second guess bankers in any aggressive manner”. Similarly, the FCIC Report (2011: xviii) concluded that the “sentries were not at their posts” due to assuming financial institutions could “effectively police themselves”. Perhaps the most astute observation comes from the UK Treasury Select Committee (2009b: 6) which concluded that:

“[W]e will never get rid of financial crises – a bank is inherently a dangerous institution that will generate crises from time to time – but what we ought to be really concerned about is that the impact of these crises and their frequency is not diminishing over time”

The practice and profession of HR, like that of Central Bankers and regulatory agencies, have a role to play in the functional running of the organizations in which they regulate the behavior [and performance] of individuals, teams / groups and functions within their organizations (Ardichvili 2013; Ardichvili et al. 2012; Ardichvili et al. 2009; Bierema 2009; Fenwick and Bierema 2008; Garavan 2007; McGuire and Garavan 2011). The OGAM role is effectively a regulatory role in which HR leaders have a duty of care to the individual, who comprise the organizations they regulate, the organizations in which they are viewed as part of the ‘leadership’ and the society in which they operate and to which they also have a duty of care. Arguably, it is not just banks that are inherently a dangerous institution as the UK Treasury Select Committee have suggested (see Treasury Select Committee 2009b, 2012) but potentially all organizations where human behavior is allowed to transform from bright side behavior into dark side behavior. The OGAM role not only contributes to the ongoing critical debate about HR’s future role (Ardichvili 2013; Bierema 2009; Fenwick and Bierema 2008;
Garavan and MacKenzie 2014) but also contributes to the more pressing conversation about the critically important regulatory function that HR has the capacity to do but may lack the desire and political capital to fulfill (Callahan 2013; Elliott 2013; Marescaux et al. 2013; Sheehan et al. 2014). The degree to which the financial crisis has been perceived as structural in nature is evidenced by the fact that only two HR professionals were called to testify at the public inquiries into the causes of the financial crisis. Ironically, the only questions posed to these HR professionals were whether compensation was commensurate with the roles of senior banking professionals. The questions regarding ideology, organizational culture and risk disposition were left to other ‘professionals’ to address and it is perhaps this example that most clearly illuminates why HR as a practice and scholarly endeavor has remained out of the spotlight in the financial crisis narrative.

While the development and acceptance of an OGAM role is not without its challenges. There is a fundamental requirement for the role following the recent PwC (2014) report on threats to the financial services sector. In this report, PwC fond that “economic crime had increased by 50% between 2009 and 2011” (p.6) - a period characterized as the greatest financial and economic downturn since the Great Depression (Barth et al. 2012; Shiller 2012; Stiglitz 2010). Moreover, the PwC report suggested that the emphasis on imposing more rules and regulations might have failed to address the key cognitive and behavioral issues. Whilst the OGAM role is considered a regulatory role, it is regulatory only in the sense that it is aimed at regulating cognition and behavior – not action per se. The justification and rationale for an OGAM type role is also supported by the findings of the Treasury Select Committee (2012) tasked with exploring the LIBOR scandal. The Committee found that in many instances, employees who engaged in violating competition law did not realize what they were doing was wrong. Indeed, they either assumed the behavior was socialized within HR sanctioned policies and practices or were unwilling / unable to challenge the status quo in bringing the
wrongdoing to the attention of the senior leadership. Had an OGAM role been in place, the HR leaders may have been in a position to alert and protect both the individuals and the organization as to these risks. Although the OGAM role is not a panacea, it may go some way in building legitimacy for HR leaders among their leadership peers and credibility among the organization’s employees.

The second article continues the conversation of the first article and contributes to the critical narrative focused on the economic foundations of HRD and questions whether the original conceptualization of HRD and its performativity imperative are currently fit for purpose (Bierema 2009; O'Donnell et al. 2006). This article utilized the data gathered from the various public inquiries to frame the content in which these provocative questions would be asked. This article addressed the second and third research objectives. Whilst a significant proportion of the HRD literature is focused on the positive impact of its interventions, the literature exploring the negative side of those interventions has been limited. Moreover, the literature exploring the theoretical foundations of HRD has moved at a slower pace than the newer roles assumed by HRD practitioners today. Whilst it is agreed that there is yet to emerge a ‘grand theory’ of HR, the conditions are favorable for a reconceptualization of the practice and scholarly debate around HR. This article considers a number of obstacles and opportunities for both HRM and HRD communities to develop a framework that may go some way in the creation of a ‘grand theory’ of HR.

This article attempted to bridge our understanding of what we perceive as the theoretical foundations of HRD with the practice of it to determine how and where HRD can contribute to the failure of people and their organizations. In doing so, this article contributed to the conversation exploring the concept of power asymmetries in the organization challenging the rhetoric assumption that HRD practices reduce rather than reality that HRD interventions have the capacity to widen these power asymmetries. The article provides some support for
the argument that HRD, far from reducing power asymmetries actually widens these asymmetries through its legitimacy and credibility seeking behavior. This legitimacy and credibility seeking behavior can be attributed to the community’s desire to resist more critical avenues of exploration in favor of well-respected mainstream perspectives – thus maintaining a degree of credibility and credibility by ensuring our journals achieve and maintain “SSCI status” (McLean 2010: 318). The second article accepts as a reality that “without action, critical discourse on HRD remains mere abstraction” (O'Donnell et al. 2006: 12). The impact of this article might be considered in the context of an invited book chapter aimed at posing these questions to HRD scholars, thus capturing a much wider audience. In doing so, it contributes to the on-going narrative that considers what HRD is and whom it serves (Ardichvili 2013; Bierema 2009; McGuire and Garavan 2011; Thompson 2011). This article was focused on raising awareness of an overreliance on our traditional theoretical heritage at the potential cost of long-term viability for the practice of HRD.

The third article makes a conceptual and empirical contribution in that it utilized cognitive appraisal theory of emotion to gain a better understanding of why multiple individuals across multiple banking and non-banking institutions engaged in the excessive risk-taking and poor decision-making behavior evident in the data. In doing so, this article addressed the three research objectives identified in Chapter One. The third article continued the conversations from the first two articles and offered empirical evidence in support of the primary aim of this research. This article explored the strategic role of HRD in banking institutions at the center of the financial crisis and argued that the over emphasis of the economic foundations of HRD were potentially contributory dimensions of institutionalized dark side behaviors such as collective [organizational] narcissistic dispositions. Parenthetically, the very HRD interventions aimed at increasing organizational commitment and emotional connection to the firm may also have played a central role in the legitimizing of dark side behaviors within and
beyond banking institutions. This article draws attention to HR policies and practices that have a double-edged impact. One where the policies and practices elicit enhanced organizational commitment, engagement and identity affiliation resulting in a sustained contribution of economic performance while at the same time, these policies and practices can potentially legitimize the development of dark side behaviors in pursuit of that economic imperative. With much of the HR literature focused on how HR as a practice can make a long-lasting contribution to sustained competitive advantage – we have been somewhat removed from how seemingly positive interventions can result in short-term gains at the cost of long-term viability. Moreover, pursuit of increased organizational commitment and organizational identity affiliation should come with a degree of perspective and understanding that enhanced commitment to the organization has the potential for both bright and dark side behaviors.

The third article offers an alternative to the conversation that influencing the emotional state of the organization’s employees must be considered against the context and setting in which the organization operates. As the paper posits – positive emotional states can potentially morph into an unhealthy state leading to the emergence of an organization-wide narcissistic state. This article concludes the narrative started with the first article by exploring the empirical evidence that specific HR interventions have the capacity to result in adverse organizational and societal outcomes and highlights antecedent conditions that can lead to the legitimation and institutionalization of organization-wide dark side behaviors.

5.3.2 Methodological Contribution

A primary feature of this thesis has been its use of unobtrusive or non-reactive methods to explore a sensitive organizational topic. A unique aspect of this research is that it applied unobtrusive methods to gather, analyze and interpret a very large data set from a multi-level and multi-country perspective. Although there are a number of examples of research that
utilized unobtrusive methods to gain valuable insight in respect of sensitive organizational topics (e.g. Brennan and Conroy 2013; Brown 2004; Chatterjee and Hambrick 2007; Gephart 1993; Weick 1990; Whittle and Mueller 2012) at the time of this research there were few examples of research that had approached a sensitive research topic such as institutionalized dark side behavior from a multi-level and multi-country perspective. Moreover, there had been very few studies conducted within the field of HRM or HRD that explored how policies, practices and procedures might contribute to the institutionalization of dark side behaviors. In this respect, the research utilized a novel methodological approach to exploring dark side of human and organizational behaviors.

The third article in particular utilized this novel methodological approach by applying an unobtrusive measure in exploring how emotions can be linked with the institutionalization of dark side behaviors from a HR perspective. Whilst there is voluminous research on the impact positive emotions can have on organizational performance and the detrimental impact of negative emotions – studies exploring the negative impact of positive emotions are limited. At the time of publication, there were few empirical studies that linked HR interventions with dark side behaviors thus this article through the use of unobtrusive methods contributes to our understanding of how HR interventions can result in legitimized dark side behaviors.

The use of innovative unobtrusive methods enabled this research team to approach the research from an ‘engaged disengagement’ perspective – in other words, the ability to be present in the public inquiry hearings allowed the team to have a fully participative role without influencing the behavior of the witnesses or interview outcomes. Indeed, one of the benefits of this unique approach to the study of sensitive organizational topics has resulted in an invited peer-reviewed research methods book chapter that provide insight for researchers on how to utilize and apply innovative unobtrusive measures to conduct research on sensitive organizational topics. The ‘engaged disengagement’ approach facilitated the development of
a Qualitative Content Analysis Framework [QCAF] that can be used as a template for future researchers to utilize in the development of a replicable strategy for conducting unobtrusive research. This framework allows for the researcher to perform ‘consistency’ checks to ensure the development of themes and concepts in consistent throughout the data analysis process. Although Krippendorf (2004) provides excellent insight into how researchers can fully utilize CA to conduct research using archival material – the QCAF may be of particular utility to HR PhD candidates grappling with access challenges.

5.3.3 Practical Contribution

As well as the conceptual, empirical and methodological contribution of this thesis, there is also a practical contribution. This thesis provides a multi-level perspective of how dark side behaviors can become embedded within an organization through a HRD lens. This perspective is not just applicable to HRD practitioners but is also applicable to HRM, organizational behaviorists, social psychologists, leadership and organizational development practitioners. The data gathered for the purposes of this thesis represents a multi-country perspective of how dark side behaviors may have a HR dimension that is consistent across the continental divide. The articles that form the basis of this research offer HR practitioners insight into how their asymmetric performance orientation role has the potential for negative organizational outcomes in the long-term despite credibility and legitimacy gained in the short-term. This research also offers a number of prescriptive measures that can be utilized to minimize the potential for dark side behaviors becoming embedded in any organization.

One of the most important practical contributions of this thesis has been the conceptualization of a model that illuminates how dark side behaviors can embed at multiple levels as well as the development of a new role for HR practitioners – the Organizational Governance and Agency Mediation role. This role recognizes the impact and influence of institutional factors on the functioning and ‘dysfunctioning’ of the organization and its members. This role is
envisaged to operate at board level with HR leaders taking an active role in providing valuable insight to senior management and board members on organizational issues likely to influence whether or not dark side behavior is prevented. This is a critical role for HR leaders as it is a mean by which they can prevent derailment of the organization’s leadership and the organization itself. This role has the potential to have built-in credibility and legitimacy in respect of being aligned with national frameworks such as the Corporate Governance Code, Stewardship Code and the EU Corporate Governance Framework, which have all emerged as a direct response to the financial crisis.

The potential benefit of this research and its finding to professional bodies such as the Chartered Institute of Personnel and Development [CIPD], Academy of Human Resource Development [AHRD], Irish Institute of Training and Development [IITD], American Society for Training and Development [ASTD] as well as the Society for Human Resource Management [SHRM] has the potential to strengthen ties between the various professional bodies and academic research further building on the work to enhance legitimacy and credibility across the profession. Another means by which the findings of this research can be disseminated is by holding coffee morning / briefing sessions with industry – this allows for the findings to be discussed in an informal setting but from a multi-level approach extending the potential reach of the research.

This thesis also has a number of implications in terms of public policy formation. In Ireland for example, following the recapitalization of the entire banking sector, a Fitness and Probity Standards Code [issued under Section 50 of the Central Bank Reform Act 2010] requires that a person carrying out a ‘controlled function’ [in a senior decision-making position] be:

- Competent and capable
- Honest, ethical and act with integrity; and
• Financial sound

Whilst the requirement to be financial sound falls outside any HR interventions, both competence and capability as well as honest, integrity and ethical behaviors fall well within the remit of HR in respect of its management and leadership development, organizational development, development of an ethical culture and climate as well as talent and succession management roles. Similar frameworks have been proposed in the UK and the US indicating the potential for this research to inform future public policy development aimed specifically at the financial services and insurance sectors.

5.4 Limitations

Despite the contributions outlined previous, this research has a number of limitations and it is important to highlight these from a transparency perspective. First, the data is drawn from a number of public inquiries that explored the cause of the financial crises in the UK and the US as well as all available data on the Irish banking crisis. Arguments may be advanced that all this data gathered is secondary and therefore not gathered expressly for the purposes of exploring antecedent conditions likely to result in dark side behaviors. Nevertheless, this research was approached from the perspective that the eyewitness testimony was a form of primary data in that it represents first hand testimony of the witnesses central to the crisis and more often than not, in a decision-making position. In this respect, the data sources can be characterized as proxy primary data – free from interpretation, bias and editing. One of the ways in which we tried to minimize the limitations was to approach the testimony from a 360° perspective that allowed for the corroboration of what an eyewitness had stated with the narratives offered by peers, subordinates or superiors as well as evidential archival data. Doing this, allowed us to frame answers within the context in which they were offered against the situations in which they occurred.
A second limitation is that the research is purely qualitative in nature with no quantitative data derived from questionnaires filled out by the respondents [witnesses]. Therefore we are limited in respect of the journals that we can submit future work to given the preference for quantitative research in many of the top tier academic journals. Nonetheless, we continue to reanalyze the data and explore from different perspectives in the hopes that we can approach it from a quantitative perspective that will allow us to develop future quantitative pieces based on the qualitative data.

5.5 Future Research Opportunities

5.5.1 HR Focused Research

Whilst this research has made a number of conceptual, empirical, theoretical and practical contributions it has also uncovered a number of future research avenues. The first article, which explored the antecedent conditions likely to lead to the institutionalizing of dark side behaviors proposed a new role for HRD, the Organizational Governance and Agency Mediation Role [OGAM]. This role could be further developed and enhanced to reflect regulatory and statutory changes in the financial services sector as well as the insurance sector as a result of the impact of financial crisis. Future research could explore the feasibility of having board-level representation of HR, something to the best of our knowledge has never before been proposed in the HRM or HRD literature. This research focus could explore OGAM from an ethical or corporate social responsibility perspective potentially broadening the scope of the original OGAM concept. The Society for Human Resource Management (2008), for example, found that HR professionals recognized that they were a “primary resource for ethics-related issues” yet argued that they felt compromised vis-à-vis “peer pressure” (p.26) to protect the interests of the organization over that of the employees. This illustrates the need to have what might be considered a board-level governance role that is
free from ‘leadership influence’ and capable of making informed decisions and offering objective advice to the organization’s senior leadership and the board of directors. This is clearly a very difficult task.

The challenges faced by HR academics is best summed up by McLean (2010) who argued that HRD scholarship needed ‘Rebels’ to push the boundaries of the field. In an impassioned piece, McLean noted, gatekeepers need to ‘encourage thinking that is outside the box’ (p.320). An aspirational goal indeed, one that McLean suggested would ensure that the scholarly pursuit of HRD would remain ‘dynamic, growing and barrier busting’ (p.320). The challenges that McLean alluded to were very clear. Young academics are less likely to engage in ‘rebellious’ scholarly discourse as they have neither any real legitimacy nor credibility and are unlikely to get an audience anyway. Well established HRD scholars are unlikely to engage in rebellious research given they are a) either cognizant that in doing so they jeopardize their career aspirations or b) have witnessed a bureaucratization of the scholarly field over the years and realize that ‘rocking the boat’ has little or no impact.

In order to evaluate the feasibility of this role we may need to deconstruct the roles considered to be central to HRM and HRD in establishing what capacity we possess in order to fulfill these roles. Future research on this new regulatory function could look at leveraging or replicating the regulatory compliance frameworks to establish a degree of legitimacy and credibility for the roles. This would potentially elevate this role to the National level of discourse and might even influence policy development to ensure dark side behavior is curtailed before it can take hold. In this instance, HR practitioners would be akin to Central Bank regulators and act as chaperones who remove the punchbowl before the party starts to warm up. The potential research avenues for this particular stream include: Ethics, Leadership Development, Organization Culture Development, Corporate Governance, Organization Development, and National and International Public Policy Development.
5.5.2 Organizational and Institutional Focused Research

The conceptual model 3.5 has highlighted a number of key areas that emerged from the content analysis but were not explored fully given the limited focus of the articles upon which this PhD is based. To that end, this section will explore the potential research output of these areas of interest. Two specific areas that offer potential research output focus on organizational dimensions of dark side behavior such as socialization and legitimation of a dark side organizational identity. The other area of potential future research output explores the concepts of organizational disasters (e.g. Shrivastava 1988, 1994; Shrivastava et al. 1988; Turner 1976, 1994) and institutional theory and the ‘professions’ (Scott 2008a; Scott 2008b; Scott and Meyer 1991; Zald and Lounsbury 2010). A major theme that emerged from this research has been that of emotional connection and identity and its interplay with dark side behaviors. Currently, there is still some ambiguity about what antecedent conditions have the potential to lead to dark side behaviors such as narcissism – the third article provides some possible answers to this problem however, was limited in its focus [HR interventions]. Future research could utilize cognitive appraisal theories of emotion and social identity theories to explore how a dark side behavior such as organizational narcissism might emerge within an organizational form or across an organizational field. By expanding on the conceptual model 2.1 in Chapter 2, a refocusing of the data from the financial crisis might illuminate potentially new areas of research that looks at how appraisal tendencies(Lerner and Keltner 2000) are linked with action tendencies (Frijda 2010; Frijda et al. 1989). This research might explore how knowledge and intellectual asymmetries can facilitate the institutionalization of a field-wide narcissistic disposition.

Another potential area of future research might look at how social silences are legitimized by powerful professional groups – this research could take an institutional theory perspective and explore the merging of institutional pillars such that one pillar [cultural-cognitive] becomes
almost like a ‘super pillar’ with regulative and normative pillars appearing subservient further legitimizing the power of knowledge and intellect and the potential these asymmetries have for institutionalizing dark side behaviors. Kostova et al. (2008: 997) provide some very interesting insight in how multinational corporations [MNC’s] can more accurately be examined by combining both old and new institutional theory. This perspective can also be usefully applied to the banking and financial sector. In their paper, Kostova et al. (2008: 997) argue that fields construct socially acceptable patterns of organizational structures and actions, an observation also advanced by DiMaggio and Powell (1983) and (Scott 2008a).

What is most interesting however, is the approach Kostova et al. (2008: 1001) take when exploring legitimacy in the context of MNC’s, they argue that legitimacy comes through a serious of negotiations with ‘important legitimating actors’ rather than isomorphic pressures. Legitimacy in this context is socially constructed rather than a function of isomorphism. As we examine the role of financial institutions, legitimacy is less predicated on isomorphic pressures and is more reflective of a socially constructed arrangement in which legitimacy is a negotiated process with legitimacy-granting actors. While symbolic image building is critical for MNC’s through the legitimacy negotiation process, in the context of financial institutions – the symbolic image building is as the result of cognitive capture of the legitimacy-granting actors rather than a negotiated process. It is the insight illuminated by Kostova et al. (2008) that offers a multitude of potential institutional theory focused research papers that may advance our understanding of how financial institutions have become the dominant coalition of institutional actors.

As financial institutions operate in multiple domains and regions throughout the globe, there are similarities between the MNC focus of Kostova et al’s (2008) research and how instructional theory can advance out understanding of how financial instructions construct their fields, negotiate their legitimacy within those fields and how they engage in dealing with
institutional pressures through decoupling (Edelman and Suchman 1997; Lehman and Ramanujam 2009). One area of interest here might be how financial instructions cognitively capture institutional actors tasked with coercing financial instructions to operate in an acceptable manner or risk sanction. Cognitive capture is different from regulatory capture in that cognitive capture entails a degree of compliance to orthodoxy rather than a transactional benefit. The concept of cognitive capture can clearly be illustrated in the context of the ‘turf war’ the OTC waged with the FDIC (US Senate hearings 2011b). Although the phrase ‘turf war’ only emerged as an issue between the regulators in the Senate hearings, similar issues appeared in both the UK public inquiries and in the context of the Irish banking crisis. Future research could look at how financial institutions in multiple regions globally were able to subtly, and perhaps not so subtly subsume regulatory pillars into one ideologically formed super pillar.

Another interesting theme to emerge from the research was the concept of organizational and institutional narcissism. Campbell et al. (2011: 280) argued that “much of the destruction in the real estate industry...[has] the appearance of narcissistic damage at the meta-organizational level”. Although Campbell et al.’s (2011) article was a theoretical piece, it presents a significant opportunity to augment his and Ardichvili et al.’s (2012: 350) call for more research exploring the interplay between “organizational identity, culture and socialization of dysfunctional behaviors such as narcissism”. The significant dataset developed from the various public inquiries represents a research rich repository in which to data mine and provide empirical evidence that addresses the call to arms raised by Campbell et al. (2011) and Ardichvili et al. (2012). To date, only one instrument has been developed to measure organizational narcissism (see Hamedoglu and Potas 2012) however, no measure exists to evaluate institutional level narcissism. There may be reasons for this, for example how would we operationalize it? How could we measure an organizational level dark side
behavior? Whilst the obstacles are many, there is growing evidence and some acceptance that
dark side behavior does exist at an organizational level so perhaps some of the current
instruments utilized to measure narcissism at the individual level such as the California
Psychological Inventory, Narcissistic Personality Inventory 40-item (Raskin and Terry 1988)
and 16-item (Ames et al. 2006) instruments can be integrated into organizational culture /
ideology instruments (Cooke and Laffety 1987; Harrison 1972; Ingersoll et al. 2000;

One way to circumvent the issues represented by blunt instruments aimed at measuring /
exploring concepts such as institutional narcissism is to apply a multi-focused theoretical
lens. Disasters studies literature and institutional theory for example, offer exceptional
theoretical applicability when exploring antecedent conditions understood to be central to the
financial crisis. It is generally accepted that organizational behavior exists within a sphere of
socially constructed, taken-for-granted ideals and dispositions (Scott 2008a) one in which
financial, economic and organizational disasters are occurring with alarming frequency (Aini
and Fakhrul-Razi 2010). Industrial crises reflect situations in which organizational actions are
the source of ‘major damage to human life, and natural and social environments’ (Shrivastava
et al. 1988: 287). In this respect, the financial crisis fits with this definition. Turner’s (1976)
early work for example, drew attention to cognitive biases, intellectual failings, regulatory
arbitrage and containment of relevant information as central issues in his research exploring
three UK disasters. Turner’s findings are as prevalent today as they were over 30 years ago
especially given the similarities in ‘intelligence failures’ (p. 383) central to his disaster
research and the intelligence failures on a grand scale central to the financial crisis (e.g. FSA
2009; FSA. 2011; US Senate hearings 2011a). In many respects, Turner’s seminal work on
disaster studies can be readily applied to the financial crisis insofar as his mandate was to
understand the antecedent conditions that fostered the ‘failure of foresight’ (p. 379).
It is no coincidence that many commentators have referred to the financial crisis as a *Black Swan* – after all, it is easy to point to an extreme event and argue that there was no way to predict the alignment of a constellation of inconceivable events. Arguably however, the idea that modern finance and associated intellectual advances by a profession that developed some of the most complex financial instruments could not foresee the potential for disaster is difficult to accept. History is replete with failures of foresight in the banking profession (Reinhart and Rogoff 2009; Stein 2003) so why do we keep getting it wrong? There is little to suggest that the financial crisis was the culmination of inconceivable events: warning signs were evident but were ignored as highlighted in the *ex-post* analysis (see FCIC Report 2011; Honohan 2010b; Nyberg 2011; Treasury Select Committee 2009a, 2012; US Senate Report 2010). The financial crisis was in fact, a failure of foresight and while *Black Swans* by and large are unpredictable events (Taleb 2010) human behavior to a large degree is not. Ironically, HR as an organizational function that develops interventions and practices to address human behavior has yet to fully appreciate the strategic importance of their work. As a strategically important function of the business – HR is well placed to recognize behavioral warning signs and implement interventions aimed at minimizing the impact of these dark side behaviors than can ultimately lead to organizational / institutional disasters.

A critical issue that Turner identified was one of *problem complexity, cognitive entrenchment* and *institutionalized beliefs* that led to collective myopia and the potential for disaster. Similarly, Shrivastava et al., (1988: 290) posited that industrial crises emerge from the intersection between “human, organizational and technological (HOT) and regulatory, infrastructural and preparedness (RIP)” – the cognitive/structural divide. There is a general consensus regarding antecedent conditions (Toft and Reynolds 1997; Turner 1976, 1994) or phases (Aini and Fakhirul-Razi 2010; Shrivastava 1994; Shrivastava et al. 1988) that precede organizational disaster – that is, *human behavior* plays a central role. The significance of this
perspective reflects the reality of organizational life, one in which organizations operate among other organizations within the field but also among institutions that influence and constrain organizational behavior (Oliver 1991; Powell and DiMaggio 1991; Scott 2008a). And while the behavior of many individuals in one organization might indicate a cultural or climate issue – similar behavior among many individuals within an elite profession indicates an altogether different issue. It indicates an institutional precursor to disasters.

Institutional theory is well suited to exploring banking disasters given its ability to consider macro-level interactions between organization and institution. Institutional Theory has been also been used in combination with the disasters studies literature to very good effect to demonstrate how institutional factors can create an environment where disasters are likely to happen. Wicks (2001) for example, examined the Westray Mines explosion and found that institutional logics created a mindset of invulnerability that impacted on how miners viewed risk and risk-taking behavior. Wicks persuasively argued that Scott’s (2008) institutional pillars operated simultaneously to influence miner’s behavior even though that behavior was both dangerous and detrimental to the miner’s well being. The simultaneous influence of the regulatory, normative and cultural micro-institutional logics Wicks argued was central to the Westray explosion. Similarly, Riaz et al. (2011) utilize the concept of institutional work to explore the rhetorical processes used by elite actors following the impact from the financial crisis.

Riaz et al. (2011: 208) argue that despite approaching the financial crisis from different analytic perspectives: academics [retrospective analysis], elite professionals [prospective scenario building] and regulators [status quo legitimacy] engaged in avoidance processes to either “over-generalize or obfuscate relevant issues” in an attempt to avoid critical discussion. This insight illuminates why institutional theory has been applied to examine the financial crisis in an attempt to understand the cognitive/structural divide (e.g. Carruthers 2010;
Fligstein and Goldstein 2010; Pozner et al. 2010; Zald and Lounsby 2010). Pozner et al. (2010: 193) for example, posit that an extreme form of regulatory capture which they refer to as the ‘privatization of legitimacy’ enabled banking institutions to garner the support and power of the state to reduce and subvert regulatory enforcement (FCIC Oral Interviews 2010b). This form of regulatory capture suggests that the regulated engaged in self-regulation through legitimate manipulation of regulations, one in which the state was both an active and willing participant. In extreme instances, the state acted as a cheerleader for banking institutions and rather than invoke sanctions on those engaged in regulatory breaches – the state by proxy of its agents engages ‘pushback’ (FCIC Oral Interviews 2010a) tactics to delegitimize the effectiveness of regulatory agencies and legitimize the manipulation tactics of the regulated institutions.

This form of regulatory capture reflects Oliver’s (1991: 156) “manipulation” as a strategic organizational response to institutional pressure. Similarly, Carruthers (2010: 167) draws attention to how professionals within the banking and finance world derived as sense of being the crème-de-la-crème – intellectually and politically. This exclusive membership of an elite profession limited their ability to assess risks and make decisions in a value free manner leading to many missing or misinterpreting warning signs. Many of the Wall Street banks at the center of the financial crisis drew their professionals from a small pool of elite business schools thus creating an environment of collective worldviews and institutionalized behavior.

Palmer and Maher (2010) and Guillen and Suarez (2010) make a compelling argument that the near failure of the US financial system exhibited signs of a normal accident (Perrow 1999) given the tightly coupled and interactively complex nature of the system which leads to a higher probability of accidents and disasters. Although both Palmer and Maher (2010) and Guillen and Suarez (2010) make a strong case to view the US financial crisis as a normal accident – this argument assumes risk-taking and decision-making was out of the hands of
banking institutions, the non-agentic approach. It has become clear however, from public inquiries in the US, UK and Commission of Investigation in Ireland as well as the recent ‘Anglo’ tapes that this may not have the case.

While it is accepted that complexity and tight coupling within the financial system was a significant feature in the financial crisis; we agree with Perrow’s (2010) assessment and consider the nexus between the cognitive / behavioral and organizational /institutional structures that legitimated excessive risk-taking and poor decision-making behavior as a key feature of the financial crisis. From an institutional theory perspective, behaviors are understood in the context of how institutions control and constrain organizational behavior by defining legal, moral, and cultural boundaries and by defining what is legitimate from illegitimate activities (Scott 2008a: 50). This research indicates that the excessive risk-taking and poor decision-making behavior of an actor class or ‘profession’ was more reflective of inverse legitimacy rather than incompetence or ineptitude. In this new institutional arrangement, banking organizations were no longer constrained by ‘traditional’ institutional processes but rather created a new financial and economic reality in which only the members of the elite ‘profession’ had a thorough understanding. In this environment, banking institutions created alternative institutional logics derived from a number of asymmetries [intellectual and power].

Future research could explore whether a general feeling of omnipotence emerged within banking institutions as a result of information, intellectual and power asymmetries that ‘captured’ the regulative aspects of the institutional environment. This research approach could consider how / why normative rules legitimized a form of social silence (Bourdieu 1977; Tett 2010b) through professional authority and whether cultural-cognitive dimensions framed by ideological dispositions and social identities created and environment conducive to poor decision-making leading to the near collapse of the global banking system. By utilizing
Scott’s institutional pillars [regulative, normative and cultural-cognitive] to illuminate how excessive risk-taking and poor decision-making behavior not only became institutionalized within the field of banking and finance but how it became embedded within the wider institutional field among disparate institutional agents (Scott 2008a: 50-51) it may be possible to demonstrate how these institutional pillars simultaneously reinforced each other to produce and environment of excessive risk-taking and poor-decision-making behavior with only one resultant outcome – an institutional disaster.

5.5.3 Theoretical Research Opportunities

Another potential area of research that might emerge from this thesis is the construction of theories that are HRD specific. In the second article for example, we raised an awareness of what the concept of HRD truly represents and perhaps provides an impetus for future research to reexamine HRD from a purely social psychology and sociology perspective rather than predominantly economics perspective. Research in this area could potentially aid in the reestablishment, or establishment in the first place, of HRD. This is potentially quite significant. Given the central role the HRM and HRD interventions play in organizational functioning, it is imperative that scholars establish how and why certain HR interventions have the capacity to result in dark side behaviors becoming embedded in organizations or within institutional arrangements and logics. Moreover, research that takes a more critical look at HRD can redevelop it as a fit-for-purpose organizational function in contemporary organizations rather than a traditional role that has been stretched beyond its initial conceptualization. The only way to approach this issue is to deconstruct the concept of HRD to try and establish what it consists of. Over time, the historical understanding of HRD has moved from a purely training and development role to now encompass a significant degree of strategic capacity but with questionable capability. This represents a unique opportunity for HRD theorists to craft and
develop theories that are borne out of the practice and scholarly endeavor that is HRD rather than borrowed from other disciplines.

This research has opened up the possibility of research outputs beyond the field of HR with contributions to the fields of organizational behavior, social psychology, management and leadership, economics and sociology as a result of the dataset that has been developed from this research.

5.6 Conclusion

The purpose of this research was to explore and develop a greater understanding of whether HR interventions can create an environment in which dark side behaviors are legitimized, socialized and normalized. Whilst the initial and most severe economic and social impact as a direct result of the financial crisis has dissipated to a large degree, awareness has been provoked among management, strategy and HR scholars. This research has added to the conversation on how dark side behaviors can become legitimized, socialized and normalized through numerous organizational contexts, situations and interventions. Each of the published articles that form the basis of this research uncloak how dark side behavior can be facilitated and legitimized by HR practices that appear, on the surface, to be conducive to functional, ethical and moral decision-making. Moreover, these practices aimed at eliciting organizational commitment, have the potential to result in dark side destructive behaviors damaging the individual, organization and society.

The proposed Organizational Governance and Agency Mediation [OGAM] role is potentially groundbreaking given the recent findings by Pricewaterhouse Coopers [PwC] that fraud and other dark side behavior have actually increased rather than decreased since the financial crisis emerged. The move beyond the proscriptive HR Leader as envisaged by Ulrich & Brockbank (2005) and into a more strategic board level position that is insulated from
political influence has significant utility for senior HR professionals. Various regulatory provisions enacted in Ireland, the US and the UK has laid the groundwork for a more active HR role in circumventing dark side behaviors. The FSA for example has created a new regulatory tripartite approach to enforcing regulations. The Financial Conduct Authority [FCA], which will be tasked with protecting customers from sharp practices and ensuring professionals working in financial services institutions comply with rules and regulations offers potential opportunities in organizational culture development focused on moral and ethical decision-making at all levels in banking institutions. The FSA has also identified those who are either in or are being recruited into ‘significant influence functions’ as potential hazards to financial institutions and has moved to create more robust formal panels to interview would-be executives. The Central Bank of Ireland has also considered this a significant dimension of dark side behavior and has moved to ensure ‘fitness and probity standards’ are fundamental to the recruitment, selection and promotion of organizational talent. This is another significant opportunity of HR practitioners, one in which legitimacy and credibility will be centered on ensuring that organizational talent is long-term, rather than short-term focused.

The critical role played by HRD highlighted in the second paper also provide a fruitful research agenda for anyone willing to consider challenging the status quo within the field and scholarly debate of HRD (McLean 2010). The particular impact of this paper is witnessed by the fact that it has been cited a number of times by outstanding HRD and leadership scholars. Given the abject failure of internal resources and capabilities central to the Resource Based View and Dynamic Capabilities theories [which also form a central dimension of the strategic dimensions of HR] it is now imperative to take a more sociologically oriented perspective (Ardichvili 2013; Gold and Bratton 2014) that considers how best HR can best serve its stakeholder community. This might only be achieved through a more critical examination of
how and were the practice and scholarly pursuit has derived its legitimacy and credibility. The second paper has made a number of attempts to advance this agenda and proposed that HR will not achieve and maintain legitimacy and credibility by playing a game, but by refereeing the game. This metaphor shifts the HR orientation from short-term economics zero-sum game and game theory strategy to a more long-term sociologically and socially constructed strategy.

The CAT model in the third article provides some insight into how HR interventions have the capacity to influence cognitive appraisals of individuals working in financial institutions. This model in article three and the conceptual model 2.1 illuminate the influence of organizational and institutional variables on cognitive appraisals of organizational members. These cognitive appraisals have the capacity normalize dark side behavior as a result of legitimacy grated via HR interventions and institutional and professional membership. This research contribution is may prompt HR practitioners to evaluate the downside risk associated with policies intended to elicit organizational commitment and performance.

In summary, this research has implications for HRM and HRD, leadership studies, management and organizational psychology. This research provides some important insights into how dark side behaviors can become legitimized, socialized and normalized as a result of HR interventions aimed at achieving organizational goals and objectives. In essence, this research addresses a number of lacunae in respect of how dark side behaviors develop, become legitimized and migrate beyond the organizational field.

The limitations of the research have been identified and addressed with recognition that no research is perfect. Academia has a responsibility to advance knowledge, envision alternative futures and be a positive disruptive force – perhaps we can all aspire to this concluding thought.
“….here’s to the crazy ones, the misfits, the rebels, the troublemakers; the round pegs in the square holes - the ones who see things differently. They’re not fond of rules and they have no respect for the status quo. You can quote them, disagree with them, glorify or vilify them – about the only thing you can’t do is ignore them: because they change things and push the human race forward. While some may see them as the crazy ones, we see genius...because the people who are crazy enough to think they can change the world are the ones who do”

(Steve Jobs)
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Appendix I

Actor Breakdown
### Table 3.2: Financial Crisis Inquiry Commission [FCIC] January 2010 – September 2010 First Public Hearing

<table>
<thead>
<tr>
<th>Actor</th>
<th>Actor Type</th>
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<th>Organization</th>
<th>Country</th>
<th>Public Inquiry</th>
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<tr>
<td>Bill Thomas</td>
<td>Government [Commission Investigator]</td>
<td>Vice Chair FCIC</td>
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**January 13th 2010 Day 1 - Panel 1: Financial Institutions Representatives**

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<tr>
<td>Lloyd C. Blankfein</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Chairman &amp; CEO Goldman Sachs Group</td>
<td>Goldman Sachs</td>
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<tr>
<td>James Dimon</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Chairman and CEO JPMorgan Chase &amp; Company</td>
<td>JP Morgan</td>
</tr>
<tr>
<td>John J. Mack</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Chairman</td>
<td>Morgan Stanley</td>
</tr>
<tr>
<td>Brian T. Moynihan</td>
<td>Professional [Banking &amp; Finance]</td>
<td>CEO &amp; President of Bank of America</td>
<td>Bank of America</td>
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**Panel 2: Financial Market Participants**

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<td>Michael Mayo</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Managing Director and Financial Services Analyst</td>
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<tr>
<td>J. Kyle Bass</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Managing Partner</td>
<td>Hayman Advisors</td>
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<tr>
<td>Peter J. Solomon</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Founder and Chairman</td>
<td>Peter J. Solomon Company</td>
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Table 3.2: Financial Crisis Inquiry Commission [FCIC] January 2010 – September 2010 First Public Hearing

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<td><strong>Panel 3: Financial Crisis Impacts on the Economy</strong></td>
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<tr>
<td>Dr. Mark Zandi</td>
<td>Professional [Economics]</td>
<td>Chief Economist and Co-founder Moody’s</td>
<td>Moody’s</td>
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<tr>
<td>Dr. Kenneth T. Rosen</td>
<td>Academic [Economics]</td>
<td>Chair Fisher Centre for Real Estate and Urban Economics UC Berkeley</td>
<td>UC Berkeley</td>
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<tr>
<td>Julia Gordon</td>
<td>Professional [Legal]</td>
<td>Senior Policy Council</td>
<td>Centre for Responsible Lending</td>
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<td>C. R. ‘Rusty’ Cloutie</td>
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<td>U.S. Federal Deposit Insurance Corporation</td>
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<td>Mary L. Schapiro</td>
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<td>Securities &amp; Exchange Commission</td>
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<td>Denise Voigt Crawford</td>
<td>Government [Legal]</td>
<td>Commissioner</td>
<td>Texas Securities Board</td>
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Table 3.2: Financial Crisis Inquiry Commission [FCIC] Forum to Explore the Causes of the Financial Crisis

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<td>Pierre-Olivier Gourinchas</td>
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<td>John Geanakoplos</td>
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<td>James Tobin Professor of Economics</td>
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<td>Annamaria Lusardi</td>
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<td>Joel A. and Susan Hyatt Professor of Economics</td>
<td>Dartmouth University</td>
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<td>Chris Mayer</td>
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<td>Paul Milstein Professor of Real Estate</td>
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<td>Dwight Jaffee</td>
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<td>Willis Booth Professor Banking, Finance &amp; Real Estate</td>
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<td>Markus Brunnermeier</td>
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<td>Edward s. Sanford Professor of Economics</td>
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<td>Anil Kashyap</td>
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Table 3.2: Financial Crisis Inquiry Commission [FCIC] Subprime Lending and Securitization and GSES

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**April 7th 2010 Session 1: The Federal Reserve**

**Session 2: Subprime Origination and Securitization**

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<td>Patricia Lindsay</td>
<td>Professional [Banking &amp; Finance]</td>
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<td>Susan Mills</td>
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<td>Managing Director of Mortgage Finance</td>
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**Session 3: Citigroup Subprime-Related Structured Products and Risk Management**

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<td>Former President and Co-Chief Operating Officer Bear Sterns</td>
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<td>Former CEO Bear Sterns Bear Sterns</td>
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<td>Charles Christopher Cox</td>
<td>Government [Legal/Banking]</td>
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<td>Michael A. Neal</td>
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<td>Mark S. Barber</td>
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<td>Steven R. Meier</td>
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<td>Chief Investment Officer State Street</td>
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### Table 3.2: Financial Crisis Inquiry Commission [FCIC] 
**Credibility of Credit Ratings, The Investment Decisions made based on Ratings**

<table>
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<tr>
<th>Actor</th>
<th>Actor Type</th>
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<tr>
<td>Eric Kolchinsky</td>
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<td>Former Team Managing Director, U.S. Derivatives</td>
<td>Moody’s Investor Services</td>
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<td>Jay Siegel</td>
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<td>Nicolas S. Weill</td>
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<td>Warren E. Buffett</td>
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<td>Raymond W. McDaniel</td>
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<td>Richard Michalek</td>
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<td>Michael Greenberger</td>
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<td>Steve Kohlhagen</td>
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<td>Former Professor of International Finance</td>
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<td>Albert ‘Pete’ Kyle</td>
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<td>Charles E. Smith Chair Professor of Finance</td>
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<td>Michael Masters</td>
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Table 3.2: Financial Crisis Inquiry Commission [FCIC] Credibility of Credit Ratings, The Investment Decisions made based on Ratings

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<td>Martin J. Sullivan</td>
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<td>Andrew Forster</td>
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<td>Elias F. Habayeb</td>
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<td>Gary Gensler</td>
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<td>Chairman</td>
<td>Commodity Futures Trading Commission</td>
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<td>Clarence K. Lee</td>
<td>Government [Economics]</td>
<td>Former Managing Director for Complex and International Organizations</td>
<td>Office of Thrift Supervision</td>
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### Table 3.2: Financial Crisis Inquiry Commission [FCIC] Role of Systemic Risk in the Financial Crisis

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<td>Scott G. Alvarez</td>
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<td>General Counsel Board of Governors</td>
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<td>Robert K. Steel</td>
<td>Professional [Banking &amp; Finance]</td>
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<td>Richard ‘Dick’ Fuld, Jr.</td>
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<td>Harvey R. Miller</td>
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<td>Business Finance &amp; Restructuring Partner</td>
<td>Weil, Gotshal &amp; Manges, LLP</td>
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<tr>
<td>Bary L. Zubrow</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Chief Risk Officer</td>
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<td>Ben S. Bernanke</td>
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Table 3.3a: US Permanent Subcommittee on Investigations: Wall Street and the Financial Crisis – The Role of Regulators

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<td>John E. Bowman</td>
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<td>Acting Director, Office of Thrift Supervision</td>
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<tr>
<td>John Corston</td>
<td>Government [Legal]</td>
<td>Acting Deputy Director, Division of Supervision and Consumer Protection, Complex Financial Institution Branch, FDIC</td>
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<tr>
<td>Darrel Dochow</td>
<td>Government [Legal]</td>
<td>Former West Regional Director, OTS</td>
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<tr>
<td>George J. Doerr</td>
<td>Government [Legal]</td>
<td>Deputy Regional Director, San Francisco Region, FDIC</td>
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<td>John M. Reich</td>
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<td>Former Director, OTS</td>
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<td>Jon T. Rymer</td>
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<td>Inspector General, FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
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April 16th 2010
Table 3.3b: US Permanent Subcommittee on Investigations: Wall Street and the Financial Crisis – The Role of Investment Banks

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<td>Daniel L. Sparks</td>
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<td>Former Partner, Head of Mortgage Department</td>
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<td>Michael J. Swenson</td>
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<td>Fabrice P. Tourre</td>
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Table 3.3c: US Permanent Subcommittee on Investigations: Wall Street and the Financial Crisis – The Role of Ratings Agencies

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<td>Susan Barnes</td>
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<td>Current Managing Director, Mortgage-Backed Securities, North American Practice Leader</td>
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<td>Arturo Cifuentes Ph.D.</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Former Moody’s Senior Vice President, Current Director, Finance Centre, University of Chile, Santiago, Chile</td>
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<tr>
<td>Peter D’Erchia</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Current Managing Director, U.S. Public Finance, Former Global Practice Leader, Surveillance</td>
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<td>Erick Kolchinsky</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Former Team Managing Director, Structured Derivatives Products Group, Moody’s Investor Services</td>
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<td>Raymond W. McDaniel Jr.</td>
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<td>Richard Michalek</td>
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<td>Yuri Yoshizawa</td>
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Table 3.4: UK House of Commons Treasury Committee – Banking Inquiry Public Hearings

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<td>Alistair Darling</td>
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<td>Lord Turner of Ecchinswell</td>
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<td>Chairman of the Financial Services Authority [FSA]</td>
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<td>Paul Chisnall</td>
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<td>Liz Murrall</td>
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<td>Charles Cronin</td>
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<td>Chartered Financial Analyst Institute Centre</td>
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<tr>
<td>Sir David Tweedie</td>
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<td>Chairman, International Accounting Standards Board</td>
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<td>Michael Izza</td>
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<td>Chief Executive,</td>
<td>Institute of Chartered Accountants in England</td>
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Table 3.4: UK House of Commons Treasury Committee – Banking Inquiry Public Hearings

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<td>Peter Hahn</td>
<td>Professional [Banking &amp; Finance]</td>
<td>FME Fellow – Corporate Finance &amp; Governance</td>
<td>Sir John Cass Business School</td>
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<tr>
<td>Carol Arrowsmith</td>
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<td>Brendan Barber</td>
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<td>Miles Templeman</td>
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<td>Director General</td>
<td>Institute of Directors</td>
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<td>Jonathan Taylor</td>
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<td>January 13th 2009</td>
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<tr>
<td>Professor Willem Buiter</td>
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<td>Professor Charles Goodhart</td>
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<td>Professor Emeritus of Banking &amp; Finance</td>
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<tr>
<td>Dr. Jon Danielsson</td>
<td>Academic [Economics]</td>
<td>Financial Markets Group</td>
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Table 3.4: UK House of Commons Treasury Committee – Banking Inquiry Public Hearings

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<tr>
<td>Paul Boyle</td>
<td>Professional [Banking &amp; Finance]</td>
<td>CEO</td>
<td>Financial Reporting Council</td>
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<tr>
<td>Professor Prem Sikka</td>
<td>Academic [Banking &amp; Finance]</td>
<td>Professor of Accounting</td>
<td>University of Essex</td>
<td></td>
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<tr>
<td>Professor Michael Power</td>
<td>Academic [Banking &amp; Finance]</td>
<td>Professor of Accounting</td>
<td>LSE</td>
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<tr>
<td>Frederic Drevon</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Senior Managing Director</td>
<td>Moody’s</td>
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<tr>
<td>Ian Bell</td>
<td>Professional [Banking &amp; Finance]</td>
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<td>Standard &amp; Poors</td>
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<tr>
<td>Stephen W Joynt</td>
<td>Professional [Banking &amp; Finance]</td>
<td>President and CEO</td>
<td>Fitch Ratings</td>
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<tr>
<td>Charles Prescott</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Group Managing Director</td>
<td>Fitch Ratings</td>
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<tr>
<td><strong>February 4(^{th}) 2009</strong></td>
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<tr>
<td>Alex Brummer</td>
<td>Media [Journalism]</td>
<td></td>
<td>Daily Mail</td>
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<tr>
<td>Lionel Barber</td>
<td>Media [Journalism]</td>
<td></td>
<td>Financial Times</td>
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<td>Robert Preston</td>
<td>Media [Journalism]</td>
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<td>BBC</td>
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<td>Simon Jenkins</td>
<td>Media [Journalism]</td>
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<td>Guardian</td>
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<td>Jeff Randall</td>
<td>Media [Journalism]</td>
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<td>Daily Telegraph</td>
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<td>Actor</td>
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<td>Organization</td>
<td>Country</td>
<td>Public Inquiry</td>
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<tr>
<td>Sir Tom McKillop</td>
<td>Professional</td>
<td>Former Chairman RBS Group</td>
<td>Royal Bank of Scotland</td>
<td>UK</td>
<td>✔️</td>
</tr>
<tr>
<td>Sir Fred Goodwin</td>
<td>Professional</td>
<td>Former CEO RBS Group</td>
<td>Royal Bank of Scotland</td>
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<tr>
<td>Lord Stevenson of Coddenham</td>
<td>Professional</td>
<td>Former Chairman HBOS</td>
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<tr>
<td>Andy Hornby</td>
<td>Professional</td>
<td>Former CEO HBOS</td>
<td>HBOS</td>
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<td><strong>February 10th 2009</strong></td>
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<tr>
<td>Eric Daniels</td>
<td>Professional</td>
<td>Group CEO Lloyds Banking Group</td>
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<tr>
<td>John Varley</td>
<td>Professional</td>
<td>Group CEO Barclays</td>
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<tr>
<td>Stephen Hester</td>
<td>Professional</td>
<td>Group CEO RBS</td>
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<tr>
<td>António Horta-Osório</td>
<td>Professional</td>
<td>CEO Abbey</td>
<td>Abbey</td>
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<tr>
<td>Paul Thurston</td>
<td>Professional</td>
<td>UK Managing Director HSBC</td>
<td>HSBC</td>
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<tr>
<td>Professor Willem Buiter</td>
<td>Academic</td>
<td>Professor of European Political Economy</td>
<td>LSE</td>
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<tr>
<td>Professor Charles Goodhart</td>
<td>Academic</td>
<td>Professor Emeritus of Banking &amp; Finance</td>
<td>LSE</td>
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<tr>
<td>Dr. Jon Danielsson</td>
<td>Academic</td>
<td>London School of Economics</td>
<td>LSE</td>
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Table 3.4: UK House of Commons Treasury Committee – Banking Inquiry Public Hearings
Table 3.4: UK House of Commons Treasury Committee – Banking Inquiry Public Hearings

<table>
<thead>
<tr>
<th>Actor</th>
<th>Actor Type</th>
<th>Organizational Role</th>
<th>Organization</th>
<th>Country</th>
<th>Public Inquiry</th>
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<td><strong>February 25th 2009</strong></td>
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<tr>
<td>Lord Turner of Ecchinswell</td>
<td>Government [Banking &amp; Finance]</td>
<td>Chairman Financial Services Authority</td>
<td>FSA</td>
<td>UK</td>
<td>✔</td>
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<tr>
<td>Hector Sants</td>
<td>Government [Banking &amp; Finance]</td>
<td>CEO Financial Services Authority</td>
<td>FSA</td>
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<tr>
<td>Loretta Minghella</td>
<td>Government [Banking &amp; Finance]</td>
<td>CEO Financial Services Compensation Scheme</td>
<td>FSA</td>
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<tr>
<td><strong>February 26th 2009</strong></td>
<td></td>
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<tr>
<td><strong>March 19th, 2009</strong></td>
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<tr>
<td>Rt Hon Alistair Darling, MP</td>
<td>Government [Banking &amp; Finance]</td>
<td>Chancellor of the Exchequer</td>
<td>HM Treasury</td>
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<tr>
<td>Dave Ramsden</td>
<td>Government [Banking &amp; Finance]</td>
<td>Chief Economist</td>
<td>HM Treasury</td>
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Appendix II

*Concepts & Themes Derived from Content Analysis of the Banking Crises Public Inquiries*
### Qualitative Data Analysis Information

US Public Inquiry Witness List & Coding Themes [FCIC Hearings]

<table>
<thead>
<tr>
<th>Date of Inquiry Interview</th>
<th>Actor Transcripts</th>
<th>Actor Type</th>
<th>Coded</th>
<th>Theme</th>
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</thead>
<tbody>
<tr>
<td>January 13th, 2010 - Day 1</td>
<td>Phil Angelides</td>
<td>Government [Commission Investigator]</td>
<td>✓</td>
<td>Opening Statement - focus on what went wrong</td>
</tr>
<tr>
<td></td>
<td>Bill Thomas</td>
<td>Government [Commission Investigator]</td>
<td>✓</td>
<td>Opening Statement - focus on what went wrong</td>
</tr>
<tr>
<td>January 13th, 2010 - Day 1</td>
<td>Panel 1: Financial Institution Representatives</td>
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<tr>
<td></td>
<td>Lloyd C. Blankfein</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Narcissism, multiple characteristics</td>
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<tr>
<td></td>
<td>James Dimon</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Narcissism, multiple characteristics</td>
</tr>
<tr>
<td></td>
<td>John J. Mack</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Narcissism, org. culture/identity issues</td>
</tr>
<tr>
<td></td>
<td>Brian T. Moynihan</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Culture &amp; Identity</td>
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<tr>
<td>January 13th, 2010</td>
<td>Panel 2: Financial Market Participants</td>
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<tr>
<td>Michael Mayo</td>
<td>Professional [Banking &amp; Finance]</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>☑ Endemic dysfunctional issues in banking</td>
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<tr>
<td>J. Kyle Bass</td>
<td>Professional [Banking &amp; Finance]</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>☑ Innovation 'craziness' &amp; 'hubris'</td>
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<td></td>
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<tr>
<td>Peter J. Solomon</td>
<td>Professional [Banking &amp; Finance]</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>☑ Excessive risk-taking at multiple levels</td>
<td></td>
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<tr>
<td>Dr. Mark Zandi</td>
<td>Professional [Economics]</td>
<td></td>
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<tr>
<td></td>
<td>☑ Narcissism, multiple characteristics</td>
<td></td>
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<tr>
<td>Dr. Kenneth T. Rosen</td>
<td>Academic [Economics]</td>
<td></td>
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<tr>
<td></td>
<td>☑ Excessive risk-taking &amp; hubris</td>
<td></td>
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<tr>
<td>Julia Gordon</td>
<td>Professional [Legal]</td>
<td></td>
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<tr>
<td></td>
<td>☑ Collusion &amp; government interference</td>
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<tr>
<td>C.R. &quot;Rusty&quot; Cloutier</td>
<td>Professional [Banking &amp; Finance]</td>
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<tr>
<td></td>
<td>☑ Excessive risk-taking &amp; hubris</td>
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US Public Inquiry Witness List & Coding Themes [FCIC Hearings] continued

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Coding Themes</th>
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<tbody>
<tr>
<td><em>Lanny A. Breuer</em></td>
<td>Government [Legal]</td>
<td>Potential criminal and corrupt behavior &amp; multiple levels</td>
</tr>
<tr>
<td>Sheila C. Bair</td>
<td>Government [Legal]</td>
<td>Banks 'hid' exposure</td>
</tr>
<tr>
<td>Mary L. Schapiro</td>
<td>Government [Legal]</td>
<td>SEC powerless against big banks</td>
</tr>
<tr>
<td>Lisa Madigan</td>
<td>Government [Legal]</td>
<td>Subprime disaster - banks knew</td>
</tr>
<tr>
<td>John W. Suther</td>
<td>Government [Legal]</td>
<td>Subprime disaster - banks knew</td>
</tr>
<tr>
<td>Denise Voigt Crawford</td>
<td>Government [Legal]</td>
<td>Subprime disaster - banks knew</td>
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<tr>
<td><em>Glen Theobald</em></td>
<td>Government [Legal]</td>
<td>Subprime disaster - banks knew</td>
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### US Public Inquiry Witness List & Coding Themes [FCIC Hearings] continued

**February 26th, 2010**

<table>
<thead>
<tr>
<th>Witness Name</th>
<th>Profession [Economics]</th>
<th>Participation</th>
<th>Coding Themes</th>
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<tr>
<td>Randall Kroszner</td>
<td>Academic</td>
<td>Yes - partial</td>
<td>Liquidity, poor business models - follow the leader</td>
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<tr>
<td>Pierre-Olivier Gourinchas</td>
<td>Academic</td>
<td>Yes - partial</td>
<td>Banks influenced policy - lobbying 'inside the beltway'</td>
</tr>
<tr>
<td>John Geanakoplos</td>
<td>Academic</td>
<td>Yes - partial</td>
<td>Overreliance on risk models &amp; faulty assumptions of theory</td>
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<tr>
<td>Annamaria Lusardi</td>
<td>Academic</td>
<td>Yes - partial</td>
<td>Banks held all the cards - Government followed their lead</td>
</tr>
<tr>
<td>Name</td>
<td>Affiliation</td>
<td>Coverage</td>
<td>Themes</td>
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<tr>
<td>Chris Mayer</td>
<td>Academic [Economics]</td>
<td>Yes - partial</td>
<td>Didn't understand what they were doing [GSE]</td>
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<tr>
<td>Dwight Jaffee</td>
<td>Academic [Economics]</td>
<td>Yes - partial</td>
<td>Hubris &amp; market share - all-encompassing knowledge in banks</td>
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<tr>
<td>Markus Brunnermeier</td>
<td>Academic [Economics]</td>
<td>Yes - partial</td>
<td>Banks similar in disposition and risk-taking [ideologies/profession]</td>
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<td>Anil Kashyap</td>
<td>Academic [Economics]</td>
<td>Yes - partial</td>
<td>Hydrogen bombs of the banking world'</td>
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<tr>
<td>Gary Gorton</td>
<td>Academic [Economics]</td>
<td>Yes - partial</td>
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<td>Witness</td>
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<td>Coding Themes</td>
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<tr>
<td>Richard Bitner</td>
<td>Media [author]</td>
<td>✓ Banks understood risks but had government backing</td>
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<tr>
<td>Richard Bowen</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ We didn't realize the risks</td>
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<tr>
<td>Patricia Lindsay</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ Hubris &amp; Denial in the risk group</td>
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<tr>
<td>Susan Mills</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
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<tr>
<td>Murray C. Barnes</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ Risk-taking based on insufficient understanding of 'fat tail'</td>
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<tr>
<td>David C. Bushnell</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ Risk-taking based on insufficient understanding of 'fat tail'</td>
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<td>Nestor Dominguez</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ Risk-taking based on insufficient understanding of 'fat tail'</td>
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<td>Thomas G. Maheras</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓ Hubris</td>
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<tr>
<td>Chuck Prince</td>
<td>Professional</td>
<td>The models did not reflect the risk - Narcissism</td>
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<tr>
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<td>Banking &amp; Finance</td>
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<tr>
<td>Robert Rubin</td>
<td>Professional</td>
<td>All banks did the same thing - based on available knowledge</td>
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<tr>
<td></td>
<td>Economics</td>
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<tr>
<td>John C. Dugan</td>
<td>Government</td>
<td>Pressure from banks and government quarters inside 'beltway'</td>
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<td>[Legal]</td>
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<td>John D. Hawke Jr.</td>
<td>Government</td>
<td>Government pressure part of policy</td>
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<tr>
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<td>[Legal]</td>
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<tr>
<td>Robert J. Levine</td>
<td></td>
<td>✓</td>
<td>Government Policy, we were just following their lead</td>
</tr>
<tr>
<td>Daniel H. Mudd</td>
<td></td>
<td>✓</td>
<td>Not overly exposed - we followed our government mandated role</td>
</tr>
<tr>
<td>Armando Falcon Jr.</td>
<td></td>
<td>Yes - partial ✓</td>
<td>Government policy narrowly focused and influenced by big banks interest</td>
</tr>
<tr>
<td>James Lockhart</td>
<td></td>
<td>Yes - partial ✓</td>
<td>Government policy narrowly focused and influenced by big banks interest</td>
</tr>
<tr>
<td>Witness</td>
<td>Profession</td>
<td>Coding Themes</td>
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<tr>
<td>Paul Friedman</td>
<td>Professional [Banking &amp; Finance]</td>
<td>High risk not fully understood - not our fault</td>
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<tr>
<td>Warren Spector</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Some groups acted alone - hid what they were doing</td>
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<tr>
<td>James E. Cayne</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Collective risk-taking among banks - exposure lay in diversification concentration</td>
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<tr>
<td>Alan D. Schwartz</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Collective risk-taking among banks - exposure lay in diversification concentration</td>
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<tr>
<td>Charles Christopher Cox</td>
<td>Government [Legal/Banking &amp; Finance]</td>
<td>Government pressure to grow economy</td>
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<tr>
<td>William H. Donaldson</td>
<td>Government [Banking &amp; Finance]</td>
<td>Banks influenced policy</td>
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<tr>
<td>H. David Kotz</td>
<td>Government [Legal]</td>
<td>Knowledge gaps - banks held all the cards, very powerful</td>
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<tr>
<td>Erik R. Sirri</td>
<td>Academic [Finance]</td>
<td>Everyone knew the risks being taken but powerless to stop them</td>
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<tr>
<td>Witness</td>
<td>Occupation</td>
<td>View</td>
<td>Statement</td>
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<tr>
<td>Henry &quot;Hank&quot; Paulson, Jr.</td>
<td>Government [State]</td>
<td>✓</td>
<td>The models work, the systems work - the people and organizations are problematic</td>
</tr>
<tr>
<td>Timothy F. Geithner</td>
<td>Government [State]</td>
<td>✓</td>
<td>Banks went off the reservation - we were not kept informed</td>
</tr>
<tr>
<td>Michael A. Neal</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Banks knew the risks, models lied</td>
</tr>
<tr>
<td>Mark S. Barber</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td>Excessive risk-taking part of culture</td>
</tr>
<tr>
<td>Paul A. McCulley</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial ✓</td>
<td>Thought they knew every possible outcome - too reliant on models</td>
</tr>
<tr>
<td>Steven R. Meier</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial ✓</td>
<td>Risks were manageable but exogenous events overtook us</td>
</tr>
<tr>
<td>Witness</td>
<td>Profession [Banking &amp; Finance]</td>
<td>Themes</td>
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<tr>
<td>*Eric Kolchinsky</td>
<td>Professional [Legal]</td>
<td>Market driven culture change - justify not rating AAA</td>
<td></td>
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<tr>
<td>Jay Siegel</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Senior Management more interested in profit than rating</td>
<td></td>
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<tr>
<td>Nicolas S. Weill</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Change in culture from collegiate orientation to market share</td>
<td></td>
</tr>
<tr>
<td>Gary Witt</td>
<td>Professional [Banking &amp; Finance]</td>
<td>No longer 'quasi-regulators' now market player interested in profit</td>
<td></td>
</tr>
<tr>
<td>Warren E. Buffett</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Banks hid truth - risk-taking part of capitalism but not socially dispersed losses</td>
<td></td>
</tr>
<tr>
<td>Raymond W. McDaniel</td>
<td>Professional [Banking &amp; Finance]</td>
<td>We responded to market - characteristics of hubris</td>
<td></td>
</tr>
<tr>
<td>Brian M. Clarkson</td>
<td>Professional [Banking &amp; Finance]</td>
<td>As an organization let down by 'quants'</td>
<td></td>
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<tr>
<td>Mark Froeba</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Role was to rate based on what we knew - banks didn’t tell us everything</td>
<td></td>
</tr>
<tr>
<td>Richard Michalek</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Banks pressured to rate, if we didn't, someone else would</td>
<td></td>
</tr>
<tr>
<td>Witness Name</td>
<td>Position</td>
<td>Statement</td>
<td>Themes</td>
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<tr>
<td>Michael Greenberger</td>
<td>Academic [Legal]</td>
<td>☑ Potential for catastrophe - banks</td>
<td>misunderstood risks</td>
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<td></td>
<td></td>
<td></td>
<td>Regulatory rules incentivized banks to hold AAA assets - they didn't</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>know their exposure</td>
</tr>
<tr>
<td>Steve Kohlhagen</td>
<td>Academic [Finance]</td>
<td>☑</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Serious soul searching needed on all sides</td>
</tr>
<tr>
<td>Albert &quot;Pete&quot; Kyle</td>
<td>Academic [Finance]</td>
<td>☑</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>The idea in principle and theory fine - cannot account for human</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>behavior</td>
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<td>Michael Masters</td>
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<td>Yes - partial</td>
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<tr>
<td></td>
<td></td>
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<td>We didn't question</td>
</tr>
<tr>
<td>Joseph J. Cassano</td>
<td>Professional [Banking &amp; Finance]</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Risk part of our business - usually sound, too much complexity in</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>system</td>
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<tr>
<td>Robert E. Lewis</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>We did the best with what we knew and banks had told us</td>
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<tr>
<td>Martin J. Sullivan</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>We operated with safe limits - exogenous forces impacted us negatively</td>
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<tr>
<td>Craig Broderick</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>We all go caught out</td>
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<td>Gary D. Cohn</td>
<td>Professional [Banking &amp; Finance]</td>
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<tr>
<td>Name</td>
<td>Professional/ Government</td>
<td>Professional/ Government</td>
<td>Goldman knew more than they let on</td>
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<tr>
<td>Steven J. Bensinger</td>
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<tr>
<td>Andrew Forster</td>
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<td>Elias F. Habayeb</td>
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<td>David Lehman</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial</td>
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<tr>
<td>David Viniar</td>
<td>Professional [Banking &amp; Finance]</td>
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<tr>
<td>Gary Gensler</td>
<td>Government [Economics]</td>
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<td>Clarence K. Lee</td>
<td>Government [Economics]</td>
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<tr>
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<td>Scott G. Alvarez</td>
<td>Government [Legal]</td>
<td>Yes</td>
<td>Regulations were enforced within the law and what we could do - splintered regulatory groups</td>
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<tr>
<td>John. H. Corston</td>
<td>Government [Legal]</td>
<td>Yes</td>
<td>High capital requirements might have helped</td>
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<tr>
<td>Robert K. Steel</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes</td>
<td>Government &amp; other banks exploited our situation</td>
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<tr>
<td>Thomas C. Baxter, Jr.</td>
<td>Government [Legal]</td>
<td>Yes</td>
<td>We were solvent - government hung us out to dry to save other 'powerful &amp; connected banks'</td>
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<tr>
<td>Richard 'Dick' S. Fuld, Jr.</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes</td>
<td>Risk part of the business - but very complex</td>
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<tr>
<td>Harvey R. Miller</td>
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<td>Barry L. Zubrow</td>
<td>Professional [Banking &amp; Finance]</td>
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<tr>
<td>------------------</td>
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<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ben S. Bernanke</td>
<td>Government [Economics]</td>
<td>✔️</td>
<td>Models and theory did not account for human behavior</td>
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<tr>
<td>Sheila C. Bair</td>
<td>Government [Legal]</td>
<td>✔️</td>
<td>Government pressure on regulators</td>
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<td>Date</td>
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<td>Actor Type</td>
<td>Coded</td>
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<tr>
<td>April 16th, 2010</td>
<td>Sheila C. Bair</td>
<td>State [Regulator]</td>
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<tr>
<td></td>
<td>John E. Bowman</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Lawrence D. Carter</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>John Corston</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Darrel Dochow</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>George J Doerr</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>John M. Reich</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Jon T. Rymer</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Eric M. Thorson</td>
<td>State [Regulator]</td>
<td>✓</td>
</tr>
<tr>
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<tr>
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<td>Actor Type</td>
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<td>April 27th, 2010</td>
<td>Joshua S. Birnbaum</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
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<tr>
<td>Lloyd C. Blankfein</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Yes - partial</td>
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<tr>
<td>Craig W. Broderick</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Daniel L. Sparks</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Michael J. Swenson</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
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<tr>
<td>Fabrice P. Tourre</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td></td>
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<tr>
<td>David A. Viniar</td>
<td>Professional [Banking &amp; Finance]</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Actor Transcripts</td>
<td>Actor Type [Banking &amp; Finance]</td>
<td>Coded</td>
</tr>
<tr>
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<td>-------------------</td>
<td>--------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>April 23rd, 2010</td>
<td>Susan Barnes</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Arturo Cifuentes Ph.D.</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Kathleen A. Corbet</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Peter D’Erchia</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Eric Kolchinsky</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Raymond W. McDaniel Jr.</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Richard Michalek</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Frank L. Raiter</td>
<td>Professional</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Yuri Yoshizawa</td>
<td>Professional</td>
<td>✓</td>
</tr>
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</table>
Appendix III
Various Models Associated with Working Papers
Figure 1.1

Cognitive / Behavioural Anchors likely to contribute to a Financial Crisis

- Historical Successes [cognitive biases/framing]
- Education/Profession [Homogeneity]
- Social Elites [prestige/status/visibility]
- Information/Knowledge/Intellectual Asymmetries
- Mutually Redefined Organizational Structure [goal sharing]

- Risk Perception
- Social Silence
- Risk Propensity
- Financial Crisis
*Qualitative questions derived from literature on Organizational Narcissism and drawn from the 40-item Raskin & Terry, 1988 NPI and 16-item Ames et al., 2006 NPI

Primary Theme ——— Secondary Theme — — — —
### Table 1: Sample of Cognitive/Behavioral Anchors with Illustrations

<table>
<thead>
<tr>
<th>Anchor</th>
<th>Source</th>
<th>Illustration</th>
</tr>
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<tbody>
<tr>
<td>Ideological Legitimacy</td>
<td>Official Report [Ireland]</td>
<td>In Irish institutions, the Commission frequently found behavior-exhibiting bandwagon effects both between institutions (&quot;herding&quot;) and within them (&quot;groupthink&quot;), reinforced by a widespread international belief in the efficiency of financial markets. [Risk-taking] was based upon fundamental intellectual errors about the way that markets work, and the self-equilibrating, or in fact non self-equilibrating, character of financial markets. That paradigm [efficient market hypothesis] was so thoroughly embraced by academia, central banks, and regulators that by 2006 it became the core of global regulatory standards (Basel II).</td>
</tr>
<tr>
<td>Cognitive bias/Framing</td>
<td>Public Inquiry [UK]</td>
<td></td>
</tr>
<tr>
<td>Intellectual/Knowledge Asymmetry</td>
<td>Official Report [Ireland]</td>
<td>The need to achieve similar profitability as competitors, either as a result of shareholder pressure, expected management returns or need for recognition or professional approval. Governments, politicians, and regulators in the UK and across the world share a responsibility for sustaining the illusion that banking growth and profitability would continue for the foreseeable future. A culture of easy reward, illustrated by risky lending of credit and capital, has been underpinned by an assumption of continuous expansion...and ever bigger bankers' rewards.</td>
</tr>
<tr>
<td>Sub Group Identity</td>
<td>Official Report [UK]</td>
<td>Rating analysts who insisted on obtaining detailed information about transactions sometimes became unpopular with investment bankers who pressured the analysts' directors to have them barred from rating their deals.</td>
</tr>
<tr>
<td>[cultures /norms/ behaviors]</td>
<td>Official Report [US]</td>
<td>[reflects delegitimizing effects of 'knowledgeable' workers challenging the Status Quo]</td>
</tr>
<tr>
<td>Identity</td>
<td>Senate hearing [US]</td>
<td>“During my tenure at Moody’s, I was explicitly told that I was ‘not welcome’ on deals structured by certain banks... I was told by my then-current managing director in 2001 that I was ‘asked to be replaced’ on future deals by ... CSFB [Credit Suisse First Boston], and then at Merrill Lynch. Years later, I was told by a different managing director that a CDO team leader at Goldman Sachs also asked, while praising the thoroughness of my work, that after four transactions he would prefer another lawyer be given an opportunity to work on his deals.”</td>
</tr>
<tr>
<td>[Information/ knowledge /intellectual asymmetries]</td>
<td>Greg Smith [Former Goldman Sachs VP]</td>
<td>It makes me ill how callously people talk about ripping their clients off. Over the last 12 months I have seen five different managing directors refer to their own clients as “muppets,” sometimes over internal e-mail. Even after the S.E.C., Fabulous Fab, Abacus, and God’s work, Carl Levin, Vampire Squids? No humility? I mean, come on. Integrity? It is eroding. I don’t know of any illegal behavior, but will people push the envelope and pitch lucrative and complicated products to clients even if they are not the simplest investments or the ones most directly aligned with the client’s goals? Absolutely. Every day, in fact</td>
</tr>
<tr>
<td></td>
<td>Senate hearings [US]</td>
<td>Senator ENSIGN. Describe static synthetic, because one of the things that I think confuses a lot of people is the definitions that you all put on things.</td>
</tr>
</tbody>
</table>
Figure 1.2 – Propositions of Financial Crisis Cognitive/Behavioral Anchors

- **Risk Perception**
- **Social Silence**
- **Risk Propensity**
- **Financial Crisis**

**Ideological Anchors**
- Historical Successes [cognitive biases/framing]

**Legitimacy Anchors**
- Education/Profession [Homogenity]
- Social Elites [prestige/status/visibility]

**Organizational Structure**
-Mutually Redefined

**Identity Affiliation Anchors**
- Information/Knowledge [Intellectual Asymmetries]

**P1a**

**P1c**

**P2a**

**P2b**

**P2c**

**P3a**

**P3b**

**P3c**

**P4a**

**P4b**

**P4c**
Table 2: Actor Breakdown [Primary Sources of Data]

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<th>Actor Type</th>
<th>Actor Profession</th>
<th>Actor Country/Origin</th>
<th>Analyzed Video/Audio Testimony [Primary]</th>
<th>Analyzed Public Inquiry Transcripts</th>
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<td>✓**</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Government State</td>
<td>United Kingdom</td>
<td>✓***</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Government State</td>
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<td>Government Central Bank</td>
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<td>Government Central Bank</td>
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<td>X</td>
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<tr>
<td>Government Legal</td>
<td>United States &amp; United Kingdom</td>
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<tr>
<td>Government Economics Advisors</td>
<td>United States</td>
<td>✓*</td>
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<tr>
<td>Government Economic Advisors</td>
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<tr>
<td>Regulatory Federal Reserve</td>
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<td>Regulatory Financial Regulator</td>
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<td>Quasi-Regulatory Ratings Agencies</td>
<td>United States</td>
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<td>Quasi-Regulatory Ratings Agencies</td>
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<td>✓</td>
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<tr>
<td>Academic Finance, Economics, Financial Economics, Behavioral Economics, Behavioral Finance</td>
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<td>Professional Banking &amp; Finance</td>
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<td>Professional Banking &amp; Finance</td>
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<tr>
<td>Professional Economics</td>
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<td>Professional Economics</td>
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<td>Professional Human Resources</td>
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* Audio & Video
** Audio only
*** Video only

Table 3a: Primary Data Sources Snapshot
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<th>Total Quotes**</th>
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<td>January – September, 2010</td>
<td>Financial Crisis Inquiry Commission</td>
<td>Public Hearings Interview Transcripts (Video &amp; Text)</td>
<td>Primary: Video Testimony &amp; Interview Transcripts</td>
<td>95</td>
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<td>April, 2010</td>
<td>United States Permanent Subcommittee on Investigations</td>
<td>Wall Street and the Financial Crisis: The role of Credit Rating Agencies</td>
<td>Primary: Video Testimony, Interview Transcripts &amp; internal agency documentation [email etc.]</td>
<td>9</td>
<td>267</td>
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<tr>
<td>April, 2010</td>
<td>United States Permanent Subcommittee on Investigations</td>
<td>Wall Street and the Financial Crisis: The role of Investment Banks</td>
<td>Primary: Video Testimony, Interview Transcript &amp; internal agency documentation [email etc.]</td>
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<td>April, 2010</td>
<td>United States Permanent Subcommittee on Investigations</td>
<td>Wall Street and the Financial Crisis: The role of Regulators</td>
<td>Primary: Video Testimony, Interview Transcript &amp; internal agency documentation [email etc.]</td>
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<td>November, 2008 – March, 2009</td>
<td>UK House of Commons Treasury Committee Banking Crisis</td>
<td>Volume 1 Oral Evidence</td>
<td>Primary: Interview Transcript only</td>
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<td>2473</td>
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<td>March – April 2012</td>
<td>UK House of Commons Treasury Committee Select Committee</td>
<td>Oral Evidence on Inquiry into Credit Ratings Agencies in the UK</td>
<td>Primary: Interview Transcript only</td>
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<td>July 2012</td>
<td>UK House of Commons Treasury Committee Select Committee</td>
<td>Oral Evidence given by Barclays Bank Executives on Bank Culture and LIBOR scandal</td>
<td>Primary: Interview Transcript only</td>
<td>3</td>
<td>58</td>
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*Denotes useable in the context of this paper
N.B. not all useable quotes were included in this manuscript

** Total number of quotes related to risk-taking & decision-making behavior
<table>
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<th>Date</th>
<th>Data Source</th>
<th>Source Name</th>
<th>Source Type</th>
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<th>*Useable Quotes</th>
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<tr>
<td>March, 2009</td>
<td>UK Financial Services Authority</td>
<td>The Turner Review: A regulatory response to the global banking crisis</td>
<td>Secondary</td>
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<td>April, 2009</td>
<td>House of Commons Treasury Committee Reports on UK Banking Crisis</td>
<td>Banking Crisis: dealing with the failure of the UK banks</td>
<td>Secondary</td>
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<td>May, 2009</td>
<td>House of Commons Treasury Committee Reports on UK Banking Crisis</td>
<td>Reforming corporate governance and pay in the City</td>
<td>Secondary</td>
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<td>House of Commons Treasury Committee Reports on UK Banking Crisis</td>
<td>Banking Crisis: regulation and supervision</td>
<td>Secondary</td>
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<td>May, 2010</td>
<td>Central Bank of Ireland</td>
<td>The Irish banking Crisis Regulatory and Financial Stability Policy 2003-2008</td>
<td>Secondary</td>
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<td>May, 2010</td>
<td>Department of Finance</td>
<td>A Preliminary Report on The sources of Ireland’s Banking Crisis</td>
<td>Secondary</td>
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<td>January, 2011</td>
<td>Financial Crisis Inquiry Commission</td>
<td>The Financial Crisis Inquiry Report</td>
<td>Secondary</td>
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<td>March, 2011</td>
<td>Commission of Investigation</td>
<td>Misjudging Risk: Causes of the systemic Banking Crisis in Ireland</td>
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<td>April, 2011</td>
<td>Wall Street and the Financial Crisis: Anatomy of a Financial Collapse</td>
<td>Majority and Minority Staff Report – Permanent Subcommittee on Investigations United States Senate</td>
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<td>December, 2011</td>
<td>UK Financial Services Authority</td>
<td>The failure of the Royal Bank of Scotland</td>
<td>Secondary</td>
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<td>August, 2012</td>
<td>House of Commons Treasury Committee</td>
<td>Fixing LIBOR: Some preliminary findings</td>
<td>Secondary</td>
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### Table 4: Example of 360° Data Analysis – actor-organization-institution

<table>
<thead>
<tr>
<th>Date</th>
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<th>Actor Type</th>
<th>Provisional Coding</th>
<th>Second-order Coding</th>
<th>Theme: cognitive/behavioral &quot;Anchors&quot;</th>
<th>Quote</th>
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<tbody>
<tr>
<td>April 7th, 2010 – FCIC hearings</td>
<td>Primary</td>
<td>Alan Greenspan [Former Chairman of Federal Reserve]</td>
<td>State [Regulators] &amp; Professional [Economics]</td>
<td>Denial [failure of ideology &amp; risk appetite]</td>
<td>Black Swan</td>
<td>Ideological/Legitimacy</td>
<td>“…the risk management paradigm nonetheless harbored a fatal flaw...in a growing state of euphoria, managers at financial institutions, along with regulators including but not limited to the Federal Reserve, failed to fully comprehend the underlying size, length and potential impact of the so-called negative tail of the distribution of risk outcomes”</td>
</tr>
<tr>
<td>August, 2009 – Documentary</td>
<td>Secondary</td>
<td>Brian Lenihan [Former Minister for Finance – Ireland]</td>
<td>State [Government Official]</td>
<td>Fear [economy]</td>
<td>Social Silence</td>
<td>Legitimacy</td>
<td>“…I was very concerned about that because anything that unsettles depositors is very bad for a banking system”</td>
</tr>
<tr>
<td>January 13th, 2010 – FCIC hearings</td>
<td>Primary</td>
<td>Lloyd C. Blankfein [Chairman &amp; CEO, Goldman Sachs]</td>
<td>Professional [Banking &amp; Finance]</td>
<td>Attributional Egotism [blame]</td>
<td>Black Swan</td>
<td>Ideology/Educational &amp; Professional</td>
<td>“…many market observers, including government officials charged with oversight of the financial markets believed the problems were and would be contained”</td>
</tr>
<tr>
<td>June 2nd, 2010 – FCIC hearing</td>
<td>Primary</td>
<td>Nicholas S. Weill [Group Managing Director, Moody’s]</td>
<td>Professional [Economics]</td>
<td>Rationalization [legalistic] / Attributional Egotism [blame]</td>
<td>Black Swan</td>
<td>Ideology/Legitimacy</td>
<td>“…the rating actions are not based on the macro view. The ratings actions that we took in July ’07 and that we always take are based on an analysis of security by security”</td>
</tr>
</tbody>
</table>
### Dimensions of Risk-Taking and Decision-Making Behavior

<table>
<thead>
<tr>
<th>Risk Perception</th>
<th>Risk Propensity</th>
<th>Decision-Making</th>
</tr>
</thead>
<tbody>
<tr>
<td>“...but over the course of 2007, if you look back at the research that was produced, most economists were talking about a soft landing and maybe five or ten percent” (Nicolas S. Weill Moody’s – FCIC June 2nd, 2010)</td>
<td>“...another failure of risk management concerned the fact that risk models, particularly those predicated on historical data, were too often allowed to substitute for judgment” (Lloyd Blankfein: Goldman Sachs – FCIC January 13th, 2010)</td>
<td>“...a culture of light regulation was propagated by many bankers and by many economic pundits, they believed that if you relaxed the restrictions on banks you encouraged economic growth but you clearly also encouraged a great deal of reckless lending” (Brian Lenihan, 2010 – Freefall)</td>
</tr>
<tr>
<td>“…the lending culture was such that when applications were problematic, the mind-set was ‘there is a ‘yes’ in there somewhere” (Peter Nyberg, 2011)</td>
<td>“...financial market and regulatory policies during the period were influenced by the efficient market hypothesis. This paradigm was widely accepted, particularly in the US and UK, and provided the intellectual underpinning for financial innovation and reduced regulation” (Peter Nyberg, 2011)</td>
<td>“...although we certainly cannot rule out home price declines...these declines, were they to occur, likely would not have substantial macroeconomic implications. Widespread securitization of mortgages makes it less likely that financial intermediation would be impaired than was the case in prior episodes” (Alan Greenspan, 2005)</td>
</tr>
<tr>
<td>“...management misjudged their capabilities and the capabilities of their elaborate risk-management systems, like VaR, to keep their institutions solvent. Even for insiders in those institutions, transparency diminished so much that firms were not prepared for the extraordinary, the so-called black swan event” (Peter J. Solomon – FCIC January 13th, 2010)</td>
<td>“...for almost a half century, we have depended on our highly sophisticated system of financial risk management to contain such market breakdowns. That paradigm was so thoroughly embraced by academia, central banks, and regulators that by 2006 it became the core of global regulatory standards (Basel II)” (Greenspan FCIC April 7th, 2010)</td>
<td>“...the marked contrast between her academic qualifications and those of her predecessors and colleagues at least invites the inference that her selection was intended to keep the scope of her analytic work directed within new and more limited boundaries” (Mark Troob: Moody’s – FCIC June 2nd, 2010)</td>
</tr>
<tr>
<td>“...economic leadership was being congratulated for having achieved the best results that the world had ever seen...it was a belief that we had overcome the economic and financial problems of the world and it led to hubris, particularly within the financial sector” (Professor Charles Goodhart: LSE – HCTC January 13th, 2009)</td>
<td>“...Rajan hit the nail on the head... what he particularly said was you guys have claimed you've found a way to make more profits with less risk...we'd say you've found a way to make more profits with more risk - there's a big difference” (Kenneth Rogoff: Harvard University, April 2010)</td>
<td>“...I think there was a philosophy, for instance, expressed by people like Alan Greenspan that it was not the role of regulators to interfere with what the market did...you are getting a quite explicit push back from academics and people like Mr. Greenspan saying: 'No, that's wrong; we should not be preventing financial market innovation...these things are self-correcting’” (Adair Turner FSA – HCTC 2009 Feb 25th, 2009)</td>
</tr>
</tbody>
</table>

*Primary source quote in italics*
### Dimensions of Social Silence

<table>
<thead>
<tr>
<th>Economic</th>
<th>Collective Identity / State Capture</th>
<th>Asymmetries/Imbalances</th>
<th>Contrarian Opinions / ‘Cassandra’s’</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;…Ireland got caught up in this set of ideas like conservative governments all over the world….you had a conservative government that bought into the free market ideology&quot; (Professor Joseph Stiglitz Columbia University, 2010)</td>
<td>&quot;…Wall Street with its significantly deep pockets and lobbyists step, by step captured the political system…both the democratic and republican side&quot; (Nouriel Roubini NYU, 2010)</td>
<td>&quot;…although it did include specialists and experts in relevant fields, it would be fair to say that, in practice, the composition of the Central Bank and Financial Services Authority of Ireland (CBFSAI) board and authority is closer to the generalist model of a central bank board than to the expert&quot; (Professor Patrick Honohan, Central Bank of Ireland, 2010)</td>
<td>&quot;…effectively what I had discovered was that there is an Omerta, a code of silence in the upper reaches of Irish society and that I had somehow violated this&quot; (Professor Morgan Kelly, UCD, 2010)</td>
</tr>
<tr>
<td>&quot;…we got tremendous pushback from the industry as well as Congress as well as, you know, internally&quot; (Sabeth Siddique, Federal Reserve Board, 2010)</td>
<td>&quot;…it was claimed by a number of bankers that most would compete on the basis of natural competitiveness and professional pride” (Peter Nyberg, 2011)</td>
<td>&quot;…suddenly, finance had become far, far more powerful than it had ever been before” (Larry Elliot, 2010 – The Gods that Failed)</td>
<td>&quot;…well, rising prices and discredited Cassandra’s blunt sensitivities and judgment even of smart people” (Buffett, FCIC, 2010)</td>
</tr>
<tr>
<td>&quot;…Brian Lenihan takes a highly unusual step of ringing the authorities in RTE [State owned broadcaster] not to say take Joe Duffy off the air but to say the consequences of this sort of panic on the radio could be a public panic which will bring down our banks’ (Pat Leahy Political Editor Sunday Business Post, 2010)</td>
<td>&quot;…I think the political classes were part of a wider climate of opinion that believed in the great moderation. The ’end of boom and bust’ is just another word for the great moderation. It is the country-specific version of that. Economists in my profession believed it as well” (Professor Willem Buiter, LSE, 2010)</td>
<td>&quot;…key policy makers, the Treasury, Federal Reserve Board and Federal Reserve Bank of NY were behind the curve – they did not have a clear grasp of the financial system they were charged with overseeing” (FCIC, 2011)</td>
<td>&quot;…in October 05, a ‘who’s who of central bankers’ gathered in Wyoming, Rajan’s paper ‘Has Financial Development made the world riskier’ was presented, his paper treated with derision and scorn – Larry Summers referred to Rajan as a ‘luddite’ for not embracing technological change” (FCIC Report, 2011)</td>
</tr>
<tr>
<td>&quot;…they basically believed as most of the American public did, you couldn’t have had this size bubble without overheating – and the Cassandra’s were there, but who was going to listen to John Paulsen in 2005 or 2006, or Michael Murray? I mean, they – it didn’t mean a thing” (Warren Buffett, FCIC, 2010).</td>
<td>&quot;…I consider the industry on steroids, performance enhanced, excesses were condoned by bankers, but also accountants, regulators, government and consumers – we ignored the long term risk. And I say collectively” (Lloyd C. Blankfein, Goldman Sachs, 2010)</td>
<td>&quot;…the complexity of financial markets, financial products exploded in recent years, but it’s clear that regulation and oversight have not kept pace” (John Mack Morgan Stanley, 2010)</td>
<td>&quot;…rocking the boat’ and swimming against the tide of public opinion would have required a particular strong sense of the independent role of a central bank in being prepared to ‘spoil the party’ and withstand possible strong adverse public reaction” (Professor Patrick Honohan, 2010)</td>
</tr>
<tr>
<td>&quot;…for years many observers had raised some concerns publicly or privately, albeit sometimes in coded form, about the sustainability of the property boom, which was indeed dramatic by international standards” (Patrick Honohan, Central Bank of Ireland, 2010)</td>
<td>&quot;…what I’m saying is I don’t want to see any interference in the property markets, I don’t want to see any….any….my job is not to interfere there ok and I don’t want to say any more about it” (Brian Cowen, former Irish Finance Minister, October 2006)</td>
<td>&quot;…the problem that any of them [regulators] faced was that if they said anything to the banks in the City before 2007, ‘you’re taking big risks’, they would have been seen to be arguing against success. The banks would have said, ‘well who are you to say we are taking too big risks. Can you prove we are taking too big risks? We have far brighter and more qualified risk assessors than you have got” (Mervyn King HCTC, 2009)</td>
<td>&quot;…origins of the banking crisis were many including low real interest rates, search for yield &amp; misplaced faith in financial innovation – ingredients combined to create an environment rich in overconfidence, over-optimism and stiling of contrary opinions” (House of Commons Treasury Committee, 2010)</td>
</tr>
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<td></td>
<td>&quot;…within institutions, contrarian thinking tended not to be encouraged and contrarian papers went unrecognized” (Nyberg, 2011)</td>
</tr>
</tbody>
</table>

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Appendix IV

Sample Coding
This Report explores what the Commission considers to be the most important policies, practices and linkages that contributed to the financial crisis in Ireland. A very large amount of documentation was analyzed and many relevant people were interviewed. In explaining the simultaneity of the failures in Irish institutions, the Commission frequently found behavior exhibiting bandwagon effects both between institutions ("herding") and within them ("groupthink"), reinforced by a widespread international belief in the efficiency of financial markets. Based on this, the Report finally offers some lessons that could help avoid future similar occurrences in Ireland and elsewhere.

The Commission considers that this pervasive pressure for consensus may explain why so many different parties in Ireland simultaneously were willing to adopt specific policies and accepted practices that later proved unsound. At the same time, the apparent consensus of banks and authorities around the view that markets remained sound and prospects remained positive gave further comfort to both. A number of banks essentially appear to have followed the example of peer banks in a "herding" fashion; there is little evidence of original critical analysis of the advantages and risks of the policies. Widespread lack of critical discussion within many banks and authorities indicates a tendency to "groupthink"; serious consideration of alternatives appears to be modest or absent. A tendency to favor silo organization and submissiveness to superiors strengthened this effect, particularly among the public authorities.

Of course, once such confidence and related liquidity disappeared, the spiral turned in the other direction. This link seems not to have been fully or generally understood by the banks, their customers or the authorities at the time. There was little, if any, challenge or testing of the assumption of a continuously benign economic environment in the Irish banks or elsewhere.

### IDEOLOGICAL ANCHORS

<table>
<thead>
<tr>
<th>Entire Quote</th>
<th>Cognitive/Behavioral Antecedents</th>
<th>1st Order Category</th>
<th>2nd Order Theme</th>
<th>Source</th>
<th>Primary / Secondary</th>
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</thead>
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<tr>
<td>In explaining the simultaneity of the failures in Irish institutions, the Commission frequently found behavior exhibiting bandwagon effects both between institutions (&quot;herding&quot;) and within them (&quot;groupthink&quot;), reinforced by a widespread international belief in the efficiency of financial markets. Based on this, the Report finally offers some lessons that could help avoid future similar occurrences in Ireland and elsewhere.</td>
<td>[Cognitive Bias / Framing] Widespread international belief in the efficiency of financial markets</td>
<td>Ideology [P]</td>
<td>Collective Cognitive Capture [S]</td>
<td>Nyberg (2011) – Irish context</td>
<td>Secondary source [official report]</td>
</tr>
<tr>
<td>The Commission considers that this pervasive pressure for consensus may explain why so many different parties in Ireland simultaneously were willing to adopt specific policies and accepted practices that later proved unsound. At the same time, the apparent consensus of banks and authorities around the view that markets remained sound and prospects remained positive gave further comfort to both. A number of banks essentially appear to have followed the example of peer banks in a &quot;herding&quot; fashion; there is little evidence of original critical analysis of the advantages and risks of the policies. Widespread lack of critical discussion within many banks and authorities indicates a tendency to &quot;groupthink&quot;; serious consideration of alternatives appears to be modest or absent. A tendency to favor silo organization and submissiveness to superiors strengthened this effect, particularly among the public authorities.</td>
<td>[Historical Success] Pervasive pressure for consensus</td>
<td>Social Silence</td>
<td></td>
<td>Nyberg (2011) – Irish context</td>
<td>Secondary source [official report]</td>
</tr>
<tr>
<td>There was little, if any, challenge or testing of the assumption of a continuously benign economic environment in the Irish banks or elsewhere.</td>
<td>[Cognitive Bias/Framing] Little, if any, challenge or testing of the assumption of a continuously benign economic environment in the Irish banks or elsewhere</td>
<td>Social Silence</td>
<td></td>
<td>Nyberg (2011) – Irish context</td>
<td>Secondary source [official report]</td>
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</tbody>
</table>
continuously benign economic environment in the Irish banks or elsewhere. Thus there was little or no contingency planning for a “hard landing” or much less a “crash”.

<table>
<thead>
<tr>
<th>A plausible explanation of the global financial meltdown is that an exaggerated belief in risk management systems underpinned misplaced confidence in risky investments, triggered the extravagant expansion in capital and liquidity worldwide shrank risk premia and generated unsustainable degrees of leverage (cf. Honohan, 2008).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unwillingness</strong> of Irish banks to remember this basic principle of banking was a major cause of the banking crisis in Ireland</td>
</tr>
<tr>
<td><strong>Cognitive Bias/Framing</strong></td>
</tr>
<tr>
<td>Omnipotence</td>
</tr>
<tr>
<td>Nyberg (2011) – Irish context</td>
</tr>
<tr>
<td>Secondary source [official report]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>It was based upon <strong>fundamental intellectual errors</strong> about the way that markets work, and the self-equilibrating, or in fact non self-equilibrating, character of financial markets.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cognitive Bias/Framing</strong></td>
</tr>
<tr>
<td>Ideology [P]</td>
</tr>
<tr>
<td>Omnipotence [S]</td>
</tr>
<tr>
<td>House of Commons Treasury Select Committee Oral Hearings</td>
</tr>
<tr>
<td><strong>Witness:</strong> Lord Turner of Ecchinswell</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>History tells us regulators cannot identify the timing of a crisis or anticipate exactly where it will be located or how large the losses and spillovers will be. Regulators</th>
</tr>
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<tbody>
<tr>
<td><strong>Cognitive Bias/Framing</strong></td>
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<tr>
<td>Regulators cannot identify the timing of a crisis</td>
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<tr>
<td><strong>Cognitive Bias/Framing</strong></td>
</tr>
<tr>
<td><strong>Ideology [P]</strong></td>
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<tr>
<td>Financial Crisis Inquiry Commission – April 7th</td>
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</table>
cannot successfully use the bully pulpit to manage asset prices, and they cannot calibrate regulation and supervision in response to movements in asset prices. Nor can regulators fully eliminate the possibility of future crises.

<table>
<thead>
<tr>
<th>Senator ENSIGN. Do you think that their ratings made sense?</th>
<th>Senator ENSIGN. You believe their methodology made sense? Senator ENSIGN. You believe their methodology made sense? Mr. TOURRE. The mathematical methodology made sense. The assumption that, historical performance is a good indicator of future performance for certain asset classes proved to be not correct.</th>
<th>Rationalization</th>
<th>Witness: Alan Greenspan (p.16)</th>
</tr>
</thead>
</table>

**Cognitive Bias/Framing**

assumption that, historical performance is a good indicator of future performance...proved to be not correct

**Ideology**

US Senate Permanent Subcommittee on Investigation “Wall Street and the Financial Crisis – The Role of Investment Banks

**Witness:** Fabrice P. Tourre – Goldman Sachs

**Primary** [public inquiry testimony]

**Cognitive Bias/Framing**

feared an “enormous economic impact”

**Ideology [P]**

Financial Crisis Inquiry Commission [official report]

**Collective Cognitive Capture [S]**

**Hubris [S]**

Financial Crisis Inquiry Commission [official report]

**Secondary source [official report]**

**Ruhi Maker** she feared an “enormous economic impact” could result from a confluence of financial events: flat or declining incomes, a housing bubble, and fraudulent loans with overstated values.

In an interview with the FCIC, Maker said that Fed officials seemed impervious to what the consumer advocates were saying. The Fed governors politely listened and said little, she recalled. “They had their economic models, and their economic models did not see this coming,” she said. “We kept getting back, ‘This is all anecdotal.’”

**Cognitive Bias/Framing**

feared an “enormous economic impact”

**Ideology [P]**

Financial Crisis Inquiry Commission [official report]

**Collective Cognitive Capture [S]**

**Hubris [S]**

Financial Crisis Inquiry Commission [official report]

**Secondary source [official report]**

The CEO of Citigroup told the Commission that a $40 billion position in highly rated mortgage securities would “not in any way have excited my attention,” and

The CEO of Citigroup told the Commission that a $40 billion position in highly rated mortgage securities would “not in any way have

**Cognitive Bias/Framing**

**Ideology [P]**

Financial Crisis Inquiry Commission [official report]

**Collective Cognitive Capture [S]**

**Hubris [S]**

Financial Crisis Inquiry Commission [official report]

**Secondary source [official report]**
The co-head of Citigroup's investment bank said he spent “a small fraction of 1%” of his time on those securities. In this instance, too big to fail meant too big to manage. Financial institutions and credit rating agencies embraced mathematical models as reliable predictors of risks, replacing judgment in too many instances. Too often, risk management became risk justification. Compensation systems—designed in an environment of cheap

Fed Chairman Greenspan acknowledged the issue, telling the Joint Economic Committee of the U.S. Congress that “the apparent froth in housing markets may have spilled over into the mortgage markets.”

To be sure, these financing vehicles have their appropriate uses. But to the extent that some households may be employing these instruments to purchase a home that would otherwise be unaffordable, their use is beginning to add to the pressures in the marketplace. . . . Although we certainly cannot rule out home price declines, especially in some local markets, these declines, were they to occur, likely would not have substantial macroeconomic implications. Nationwide banking and widespread securitization of mortgages makes it less likely

Having said that, it is important to remember that the view of the securities to be retained was developed at a time when Triple-A securities had always been considered “money good.” Moreover, these losses occurred in the context of a massive decline in home sale prices or rather in home real estate market prices that almost no financial models contemplated, including the rating agencies, Citi's, or to the best of my knowledge, the regulators.
Few market participants or analysts who saw the broad picture and the potential for a mega-crisis. A larger number saw one or a few of these factors. But almost all of us, including me, who were involved in the financial system, that is to say, financial firms, regulators, rating agencies, analysts, and commentators missed the powerful combination of factors that led to this crisis and the serious possibility of a massive crisis. We all bear responsibility for not recognizing this, and I deeply regret that.

...we all rationalized the way a lot of people—other people—have rationalized. “Gosh, the world is getting wealthier. Technology has done things. Things are more efficient. Interest—there’s no inflation. Things belong low. These businesses are going to do well.” And I think we talked—much of the world did—talked yourself into a—into a place of complacency, which we should not have gotten ourselves into and which, of course, after these events, will not happen again in my lifetime, as far as I’m concerned.

Starting in 2003, Moody’s did observe a trend of loosening mortgage underwriting standards and escalating housing prices. We repeatedly highlighted those trends in our research and we incorporated them into our analysis of the securities. By 2006, we were requiring an unprecedented level of credit protection. However, neither we nor most other market participants, observers or regulators, anticipated the severity or speed of deterioration that occurred in the U.S. housing market or the rapidity of credit tightening that followed and exacerbated the situation.

Very, very few people could appreciate the bubble, and that’s the nature of bubbles, they become mass delusions of sorts.
## LEGITIMACY ANCHORS

<table>
<thead>
<tr>
<th>Entire Quote</th>
<th>Cognitive/Behavioral Antecedent</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Order Category</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; Order Theme</th>
<th>Source</th>
<th>Primary / Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most obvious, relevant for Irish banks may be the need to achieve similar profitability as competitors, either as a result of shareholder pressure, expected management returns or need for recognition or professional approval. Another reason, valid when there are perceived economies of scale or scope, may be to avoid erosion of profitable market share.</td>
<td>need to achieve <em>similar profitability as competitors</em>, either as a result of shareholder pressure, expected management returns or need for recognition or professional approval.</td>
<td>Homogeneity [Educational/Professional]</td>
<td>Legitimacy</td>
<td>Nyberg (2011)</td>
<td>Secondary [official report]</td>
</tr>
<tr>
<td>many banks appear to have emphasized and valued loan sales skills above risk and credit analysis skills.</td>
<td></td>
<td>Sub Group Identity [culture, norms &amp; behaviors]</td>
<td>Legitimacy</td>
<td>Nyberg (2011)</td>
<td>Secondary</td>
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<td>The error made by banks, Dr. Daniellson told us, was that they treated the economy as an &quot;engineering system&quot; which could be “run through a model” to give a risk. Their stress testing and value at risk reporting did not take sufficient account of the fact &quot;that people are intelligent and people react to risk&quot;177.</td>
<td>they treated the economy as an &quot;engineering system&quot; which could be “run through a model” to give a risk.</td>
<td>Homogeneity [Educational/Professional]</td>
<td>Omnipotence</td>
<td>House of Commons Treasury Select Committee</td>
<td>Secondary [official report]</td>
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<td>Professor Buiter agreed that the world had enjoyed &quot;a classic credit and asset boom&quot;, with &quot;excessive lending&quot; and &quot;excessive leverage, which became more and more risky&quot;. He referred to the securitization problems emanating from the US, but argued that there were &quot;country-specific financial excesses&quot; in most countries in the North Atlantic area. Professor Goodhart suggested that the reason why banks became over-levered was &quot;a belief that we had overcome the economic and financial problems of the world&quot; which &quot;led to hubris&quot;, particularly within the financial sector.200</td>
<td>Professor Goodhart suggested that the reason why banks became over-levered was &quot;a belief that we had overcome the economic and financial problems of the world&quot; which &quot;led to hubris&quot;, particularly within the financial sector.</td>
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<td>Omniscience &amp; Hubris</td>
<td>House of Commons Treasury Select Committee Oral Hearings</td>
<td>Primary [oral hearings January 2009]</td>
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<td>Were you fooled into thinking that the &quot;great moderation&quot;, with low interest rates, low inflation and easy access to credit, would be a permanent state for the economy? Ben Bernanke’s &quot;great moderation&quot;, it is going to last forever? Lord Stevenson of Coddenham: The question is: did we believe the view which came.</td>
<td>Lord Stevenson of Coddenham: The question is: did we believe the view which came out not so much of Ben Bernanke but Mr. Greenspan I have to say, speaking for myself, of course you take note of what the major</td>
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<td>Legitimacy</td>
<td>House of Commons Treasury Select Committee Oral Hearings</td>
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out not so much of Ben Bernanke but Mr Greenspan I have to say, speaking for myself, of course you take note of what the major regulators say and what the opinion leaders say and, yes, that period of a decade, where the supposed Chinese deflation lowered rates of interest et cetera, that was quite a compelling argument.

In case after case after case, regulators continued to rate the institutions they oversaw as safe and sound even in the face of mounting troubles, often downgrading them just before their collapse. Where regulators lacked authority, they could have sought it.

Too often, they lacked the political will—in a political and ideological environment that constrained it—as well as the fortitude to critically challenge the institutions and the entire system they were entrusted to oversee.

For almost a half century, we have depended on our highly sophisticated system of financial risk management to contain such market breakdowns. That paradigm was so thoroughly embraced by academia, central banks, and regulators that by 2006 it became the core of global regulatory standards (Basel II). The risk management paradigm nonetheless harbored a fatal flaw.

In the growing state of euphoria, managers at...
Financial institutions, along with regulators including but not limited to the Federal Reserve, failed to fully comprehend the underlying size, length, and potential impact of the so-called negative tail of the distribution of risk outcomes that was about to be revealed as the post-Lehman Brothers crisis played out.

Another failure of risk management concerned the fact that risk models, particularly those predicated on historical data, were too often allowed to substitute for judgment.

We do place special responsibility with the public leaders charged with protecting our financial system, those entrusted to run our regulatory agencies, and the chief executives of companies whose failures drove us to crisis. These individuals sought and accepted positions of significant responsibility and obligation. Tone at the top does matter and, in this instance, we were let down. No one said “no.” But as a nation, we must also accept responsibility for what we permitted to occur.

[Greenspan] reassured legislators that the U.S. economy was on a “reasonably firm footing” and that the financial system would be resilient if the housing market turned sour. "The dramatic increase in the prevalence of interest-only loans, as well as the introduction of other relatively exotic forms of adjustable rate mortgages, are..."

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<td>Legitimacy</td>
<td>Financial Crisis Inquiry Commission [official report]</td>
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Those are e-mails from Michael Zoccoli, Sunil Surana. A number of comments have been made. Jay Eisbruck, who is one of the analysts, said, "If business was missed, you would have to answer to Brian." That's Mr. Clarkson, Mr. Witt. You once said that, you know, market share was critically important, "that is why Brian Clarkson's rise was so meteoric, was because he was the enforcer who could change the culture to have more focus on market share." Jerome Fons, who worked at Moody’s said “they willingly looked the other way, traded the firm's reputation for short-term profits.”

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It could be argued that bank management in Ireland, like many banks elsewhere in the world, had forgotten the very nature of credit. Providing credit is not a sale of bank services; it is the acquisition of a risky asset. The appropriate prudential focus of such a transaction is therefore limiting and mitigating risk (or, at the very least, understanding the real risk and pricing it accordingly) rather than expanding sales. This apparent inability, some might say unwillingness, of Irish banks to remember this basic principle of banking was a major cause of the banking crisis in Ireland. This problem was further exacerbated, as many banks appear to have emphasized and valued loan sales skills above risk and credit analysis skills.

Q33 John Thurso: Business models. Dr. Alexander: We have seen a major failure of corporate governance in financial institutions. In part, some of it is regulatory arbitrage responding to regulation, but a lot of it too is an over-focus on shareholder wealth maximization at the expense of the broader social risks that financial institutions take.

Mr. TOURRE. I would just add one more point, which is that rating agencies rely on, historical data to rate those transactions, and when rating the products I think you are referring to as CDO products, repackaging BBB securities, they relied on the historical performance of BBB-rated obligations to rate the CDO products.

Senator ENSIGN. Do you think that their ratings made sense? Mr. TOURRE. I mean, the methodology made sense.

Senator ENSIGN. You believe their methodology made sense? Mr. TOURRE. The mathematical methodology made sense. The assumption that, historical performance is a good indicator of ....the methodology made sense.

The mathematical methodology made sense. The assumption that, historical performance is a good indicator of future performance for certain asset classes proved to be not...
The mathematical methodology made sense. The assumption that, historical performance is a good indicator of future performance for certain asset classes proved to be not correct.

Goldman Sachs and some of the other major players in Wall Street is that they feel that you have a certain level of expertise. And I think that is kind of what we are trying to get at up here, is whether or not you believe the modeling was correct, good modeling as far as rating agencies were concerned. Mr. Sparks? Mr. SPARKS. I do not have the specifics of their modeling. I think in hindsight the historical correlation was much higher than what the rating agencies assumed. Senator ENSIGN. I think for anybody to defend what the rating agencies did would be ludicrous at this point, and I think that there is plenty of evidence out there to show what they did. Do you all pay the rating agencies? Mr. SPARKS. Typically, that would be paid by people involved in the deal. So it could be a deal expense. It could be an issuer. Senator ENSIGN. Right. So Goldman Sachs does pay large amounts of money to the rating agencies. Is that correct? Mr. SPARKS. On those deals, oftentimes it did. Senator ENSIGN. And do you think that that maybe appeared— has at least an appearance of a potential conflict of interest? Mr. SPARKS. With respect to maybe appearance of a conflict of— yes, I think that there is that concern with respect to that particular point. Senator ENSIGN. I want to go to a deal that Goldman Sachs did, known as Hudson 1. It was a synthetic CDO that referenced $2 billion in subprime BBB-rated mortgage-backed securities. Goldman selected the referenced assets. The purpose of the transaction appears to have been to get those assets off Goldman’s own books. Basically Goldman was the only buyer to sell this CDO and then make a bet against it.

Senator ENSIGN. I want to go to a deal that Goldman Sachs and some of the other major players in Wall Street is that they feel that you have a certain level of expertise. And I think that is kind of what we are trying to get at up here, is whether or not you believe the modeling was correct, good modeling as far as rating agencies were concerned, Mr. Sparks? Mr. SPARKS. I do not have the specifics of their modeling. I think in hindsight the historical correlation was much higher than what the rating agencies assumed.
That an accurate description of what happened with Hudson 1? Mr. SPARKS. Senator, I believe that deal was purely static synthetic, which means—— Senator ENSIGN. Describe static synthetic, because one of the things that I think confuses a lot of people is the definition that you all put on things. For instance, you called something that was actually the first floor, the bottom floor; you described it as a mezzanine so it did not sound so bad. There is a lot of spin that happened in your terminology in dealing with all these financial products to make them sound a little better than others. So could you please explain as we are going just for other people listening? Mr. SPARKS. Yes, Senator. The term “static” meant that the assets that were set in the deal could not change. The reason that is important is there were other CDOs that were done where an asset manager or someone else could choose to change the assets in the pool under certain parameters. So in this particular case, static meant here are the reference notes, the reference obligations that you are exposed to, and this is what they are going to be. Synthetic meant that there were no actual cash securities that had been put in there, so, Goldman did not sell those securities into that because there were not securities with respect to the reference on that. Senator ENSIGN. Yes, but it operated the same way as cash being in there, didn’t it?

### Information Asymmetry

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A systemic lack of skepticism was equally true with respect to credit ratings. Rather than undertake their own analysis, too many financial institutions relied on the rating agencies to do the central work of risk analysis. Another failure of risk management concerned the fact that risk models, particularly those predicated on historical data, were too often allowed to substitute for judgment.

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Another failure of risk management concerned the fact that risk models, particularly those predicated on historical data, were too often allowed to substitute for judgment.**
Securitization was not just a boon for commercial banks; it was also a lucrative new line of business for the Wall Street investment banks, with which the commercial banks worked to create the new securities.

Wall Street firms such as Salomon Brothers and Morgan Stanley became major players in these complex markets and relied increasingly on quantitative analysts, called “quants.” As early as the 1970s, Wall Street executives had hired quants—analysts adept in advanced mathematical theory and computers—to develop models to predict how markets or securities might change.


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