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VIEWPOINTS

What Really Happened in Those Board Rooms?

JOE GARRETT

Much has already been written about the economic crisis of 2008, and for certain, many books will be written on this situation.

Writers will dissect what happened and they'll try to figure out *how* and *why* it happened.

My sense is that there won't be widely divergent theories. Most analysts have already coalesced around the topics of excess leverage and uncontrolled risk-taking. I agree that these were the main causes.

What I am curious about, however, is not that management took too much risk and took on too much leverage. I understand managers pushing the envelope in pursuit of profits, and all the nice things that come with profits, such as bonuses, raises, and better titles.

What I want to know is how the Boards of Directors of so many major American financial institutions allowed this to happen.

We have long known that Directors aren't supposed to micro-manage, and as the cliché goes, the Director's job is to direct, and not to manage.

But high-risk activities and decisions were made that led to billions and billions of dollars in losses. And nothing can be more important a part of a Director's job than setting tolerance levels on risk taking.

Where was the Board when these decisions were made? Did they merely rubber stamp decisions that management proposed? Did they just discuss them in passing but never vote on them? Were these decisions actual agenda items, and if so, I'd like to know how much time was actually allocated and spent discussing them.

Law schools and psychologists have done serious studies on jury behavior, using hidden cameras and microphones. Academicians have also done countless studies on small group behavior.

I would like to propose that serious academic research be conducted on Board behavior at banks and financial institutions relative to high risk activities and losses incurred in 2008.

They would have to be given access to all formal Board and committee minutes and then follow up with interviews with various Board members.

At a minimum, they should see (1) whether those activities which resulted in losses had been on Board agendas, (2) what was the flavor of the discussion, (3) how much time was spent on the discussion, (4) whether any Board committees studied these activities independent of the full Board and what was the nature of these committee studies, (5) what were the votes, if any, to approve these activities, and (6) what did the Board do subsequently to monitor these activities.

In the great film *Twelve Angry Men*, a jury starts off its deliberations voting 11-1 to convict the defendant of murder. Henry Fonda is the lone holdout, and you see him over the next 90 minutes argue, analyze and persuade until he convinced the other eleven jurors to vote to acquit.

I'd like to believe that the Directors of our big financial institutions looked at things as analytically as did Henry Fonda and his fellow jurors. But I tend to doubt it.

And this, more than anything, is why we need serious research on what went on in the Board rooms across America. There are simply too many of us who doubt that Boards looked at their companies' foray into mortgages with as much rigor as was needed.

I suspect that if votes were taken at all, that they were almost all unanimous

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or close to it. I suspect that no one stood up and said, simply, "You just put on a very nice presentation, but this subprime lending just doesn't make any sense to me, and I am adamantly opposed to it."

Too many of us suspect that CEOs with powerful personalities pushed these programs through with limited debate. Too many of us suspect that there were no Henry Fondas, no Directors willing to stand up and state that the emperor had no clothes.

Only by studying what happened can we start to think about ways to prevent such problems from occurring again.

Joe Garrett is Principal at Garrett, Watts & Co.