

Our banks are beyond the control of mere mortals

By John Kay

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At Oxford university, I often hear people say there is nothing wrong with the system: the problem is the vice-chancellor/master/bursar/ university officials. And, in a sense, they are right. If the vice-chancellor had the wisdom of Socrates, the political skills of Machiavelli and the leadership qualities of Winston Churchill, not to mention the patience of Job, he or she would be very likely to be able to fulfil the conflicting demands of the post. But such paragons are few and far between. In the meantime we must try to find structures that can be operated by ordinary mortals.

In the same way, the claim that the fault with the banking system lies not with the structure of banks but with the boards and executives that claimed to run them is both correct and absurd. In one sense, the claim is correct: boards and executives did not successfully perform the tasks assigned to them – tasks that not only did they claim to be discharging, but for which they frequently paid themselves very large sums of money.



But, in another sense, the claim is absurd: if the failures are both as widespread and as persistent as it appears, the problem is in the job specification rather than with the incumbent. If you employ an alchemist who fails to turn base metal into gold, the alchemist is certainly a fool and a fraud but the greater fool is the patron.

The bank executives pilloried by the UK's Treasury select committee of MPs were all exceptional people. The vilified Sir Fred Goodwin was an effective manager who had slashed through the National Westminster bureaucracy and revived a failing institution – a task that had defeated many able men before him. His chairman, Sir Tom McKillop, offered experience and ability that met every possible specification for such a role in a big international corporation. As chairman of HBOS, [Lord Stevenson](#) was Britain's supreme networker. This skill is a particularly valuable attribute in an environment where the essence of banking is to extract very large sums of taxpayers' money while giving as little as possible in return. His chief executive, [Andy Hornby](#), was criticised for being a retailer. But Halifax, half of HBOS, needed retail expertise. The only thing it needed to know about complex securitised products was that there was no good reason to buy them.

Like Sir Fred, Sir Tom, Lord Stevenson and Mr Hornby, most of the people who sat on the boards of failed banks were individuals whose services other companies would have been delighted to attract. If there was a problem of board composition, it

is not an issue just for financial services companies but for the UK corporate sector as a whole. Perhaps there is such a problem, but the restructuring of financial services will not wait for its identification and solution.

The hapless four were criticised for their lack of banking expertise but it is, in fact, not clear what modern banking expertise is. The world of modern banking requires all the skills of these gentlemen, plus some others, and no one can expect to have all these attributes.

It has been said of Jamie Dimon (who does not have a banking qualification) that his dominance exists because at every meeting all the participants know that he could do each of their jobs better than they could. But the business world cannot operate at all if it can operate only with individuals of the calibre of Mr Dimon. Better, as so often, to follow an aphorism of Warren Buffett's: invest only in businesses that an idiot can run, because sooner or later an idiot will.

Our banks were not run by idiots. They were run by able men who were out of their depth. If their aspirations were beyond their capacity it is because they were probably beyond anyone's capacity. We could continue the search for Superman or Superwoman. But we would be wiser to look for a simpler world, more resilient to human error and the inevitable misjudgments. Great and enduringly successful organisations are not stages on which geniuses can strut. They are structures that make the most of the ordinary talents of ordinary people.