

Preliminary Lessons from the Financial Crisis Don't Break the Accountability Chain

There are and will be many lessons from the 2008 financial crisis. One of the most obvious and most important is that companies (and people) must be accountable for the work they do and results they create. Failure to accomplish this is one of the root causes of the financial disaster we are currently facing. The lesson from this – Don't break the accountability chain.

The bottom-line is -- companies and people must be accountable for their results. If there are several companies or people working in a process, each must be accountable for the results he or she attains and then everyone must be accountable for the final or overall results from the total process. Both levels of accountability are critical.

The financial system we had (and still have) for securitizing mortgages holds no one accountable for the quality of the underwriting and the quality of the underlying mortgages. This was not true in the beginning when banks sold, underwrote and kept their mortgages. It started when someone had the idea that you could bundle mortgages together and sell them on Wall Street as a security. By itself, this is not a bad idea, provided the security contains similar quality mortgages and has enough transparency so buyers can clearly see what they are getting so they can appropriately price the risk. But over time, this did not happen. Companies creating these securities learned they could mix different types of mortgages and add some poor quality mortgages to a security and still call it "high quality." Underwriting companies also learned that they did not have to be careful because no one seemed to care about the quality of the risks. Even more importantly, they got their money up front. They did not have a stake in the long-term quality of the mortgages they created. The lesson is -- when accountability becomes a joke; disaster is just waiting to happen.

In the financial industry, regulators are responsible for ensuring the system works properly and that consumers and companies are protected from abuses. They obviously did not do a good job. In an insurance company, this is the responsibility of senior management. Individually, each senior executive must make sure that accountability is built into the core of his or her department; especially into the organization structure, systems and work processes. Collectively, senior executives are responsible for ensuring that accountability between departments works effectively so the company's business goals are attained. How well does your company do this?

As with most things in business, the best way to see if you have sufficient accountability within your organization is to put it under stress. The stress that works best to test accountability is high levels of performance and the attainment of excellent results. You should be able to maintain proper accountability even when everyone is working very hard and focused intensely on attaining outstanding results. If your work processes cannot withstand this level of intensity and pressure, you need to redesign them.

One of the key drivers for accountability is interlocking and complimentary metrics that are built into your systems and work processes from the very start. Accountability should not be an after thought. It should be included from the beginning.

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