The prevailing organization culture at jp morgan chase essay sample

Finance, Investment

Organization Culture regarding linked article

Summary

In the two referenced articles JPMorgan $2B Trading Loss Roils Markets, Raises Fears About Bank Risks (Mcguire & Kim, 2012) and In the two referenced articles JPMorgan $2B Trading Loss Roils Markets, Raises Fears About Bank Risks and Why JPMorgan May Have The Best Strategy On Wall Street we compare two different perspectives. In the first, the authors describe the huge loss incurred by the giant corporation JP Morgan Chase & Co. over the past 6 months. The article cites CEO James Dimon attributing these losses to " egregious" errors in a unit managing risks and " sloppiness and bad judgement". It describes the source of the loss to its chief investment office based in London and trading in " synthetic credit securities". The article then describes the unfortunate timing of the incident in the light of the Volcker Bill which is proposing stricter controls on proprietary trading, although it points out that the Volcker rule could not have prevented this loss. The authors then describe the impact that this kind of loss can have on overall investor confidence and shows how the domino effect spreads, causing world markets to lose points. It further calls into question the risk management strategies in place in " too big to fail" banks especially ones like JP Morgan Chase which has traditionally had a reputation of being one of the most conservative investors in the game.

The second article written in early 2011 is an analysis of the business culture in JP Morgan Chase and Co. and gives us an interesting insight into the mechanics of the organisation culture in specific relation to its investment ideology and practice. It describes in great detail the " stewardship of Capital" at JP Morgan, the role of CEO Jamie Dimon and the involvement of the board. It shows JP Morgan as wanting to be the " Role Model for a bank run fund family" and cements its reputation as having the governance structures and Systems to support this. It highlights several positives in these systems and structures – not the least of which is the CEO James Dimon who has successfully led the giant corporation for the past 5 years. The organisation culture analysis in this article is particularly interesting when compared to the current crisis that JP Morgan is going through, and there may be some key indicators or the culture dimensions that allowed this to occur. It may provide also some insight into the changes that seem to be inevitable in order to avoid such a fall out in the future.

Background

In order to truly understand how the organisational culture and structure at JP Morgan Chase could have facilitated the catastrophe described in the article it is important to understand the evolution of JP Morgan Chase & co. Although JP Morgan and Chase can trace its history back 200 years it is the " result of a series of mergers - Chemical Banking Corp., Manufacturers Hanover, Chase Manhattan, JP Morgan, First Chicago, and Bank One have all become one under the JPMorgan Chase name". A fall out of so many different mergers and acquisitions has resulted in an organisational culture in JP Morgan and Chase that is different from other US banks. Inevitably with such far flung, self-contained hubs that arise out of mergers there is a certain silo – ed approach that creeps into the organisation's fabric - one of protecting ones' territory both physically and metaphorically, and failing to share knowledge and information across the different arms of the organisation. This is possibly what CEO Jamie Dimon was referring to when he said, " these were grievous mistakes, they were self- inflicted" For a mistake of this magnitude to have been made in the chief investments office without check over a period of 6 months seems to have people asking the question – shouldn't they have known sooner. The Morningstar article is almost prophetic when it talks of how JP Morgan actually manages its far flung operations allowing its various units to operate almost autonomously and providing it with all the necessary support. To maintain some control over the way operations work it does have according to

An overarching investment committee structure tries to ensure consistent performance and to put out any performance fires before they get out of control. But in a company this size, it's not out of the realm of possibility to expect a few teams to stay on their own turfs or to outright compete against each other.

And once the dust settles, we may well discover that this is the very reason why the crisis wasn't averted.

Findings

In the Morningstar article of February 2011, the author points to several governance structures in place in JP Morgan Chase to fit in with the organisation's culture of conservative risk taking - elaborate meeting schedules and guidelines to analyse investment options, a morning meeting to discuss strategy and review portfolios with an evening review with the

Chief Investment Officer, Client Portfolio Managers in almost a 1: 1 ratio with each fund and an in-house research operation.

In isolation, this seems an excellent strategy to ensure that all investments are done in consensus and while this permits and promotes individual decision making, any glaring mistakes that might be made are mitigated at this stage. However, governances structures in and of themselves have historically shown to be ineffective unless they are backed up with a strong culture of personal ownership and transparency. A telling line in the article of May 2012 is the observation made by Morningstar analyst Jim Leonard who said, “ Dimon responded appropriately to the error if Thursday's announcement took place immediately after he learned of the situation.” . In hindsight, with the losses of the past 6 months, this very structure of thoroughly analysing every investment made seems to bring into focus 2 questions: How could he have not known what was going on? and Why did it take so long to do something about it?

The determining factor in this organisation boils down to the eternal debate of organisation culture – am I an efficient organisation or an effective one. JP Morgan Chase has for years built its reputation on process driven efficiency. It may be time to transfer the focus to integrated intraprenuership and effectiveness.

In the end, the debate goes right back to where it started. After the fiasco of 2008, the burning question was can we trust financial institutions to self-regulate. Can individual profit making organisations truly put in the ethical and regulatory structures and ensure their successful implementation to the extent necessary so that financial considerations do not overtake sound governance practices. Till the end of the last financial year, JP Morgan Chase was the white knight that proved that they could and had - emerging out of the financial crisis as the only bank to remain profitable in 2008. They attributed this success to the strong ethics and organisational culture that they professed to espouse. This reputation has been besmirched by the incidents over the past few weeks and probably came at the worst time.

This has effectively removed the last argument that banks had for self-regulation and will undoubtedly line up the " pundits" at Capitol Hill in favour of financial regulation bills like the Volcker bill to be passed. It will provide the " tipping point" argument and ironically the exception will now prove the rule.

For JP Morgan to regain its credibility and emerge out of the crises stronger, it is going to have to look at how it repositions itself both externally to investors, analysts and the public at large and internally to its employees. A time of crisis is a great opportunity to bring in sweeping changes in organisation culture, and it will be these changes that will determine how JP Morgan rises from the ashes. The financial fallout is not very significant for a company as large as this. The damage to their reputation and the credibility of global financial systems in is the far bigger casualty. The glimmer of hope at the end of the tunnel though is CEO Jamie Dimon. To most analysts, if anyone can guide JP Morgan Chase & Co. out of this crisis he can.

The months ahead will be tough, and it will be the determiner of how JP Morgan will be remembered – will it go the way of Lehman Bros and be used as the classical example of how an organisation crashed despite having all the required governance in place or will it be held up as a stellar example of if you follow the processes of sound governance covered by a mantle of an integrated working culture any small hiccups (or colossal calamities) can be managed.

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