

Double Trouble:
Sibling Rivalry and Twin Organizations in the 2008 Credit Crisis

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ABSTRACT

The purpose of this article is to introduce and explore the novel idea of highly similar ‘twin organizations’. Drawing on psychoanalytic theory in my formulation, I argue that the closeness of organizational identities in twin organizations may lead to increased rivalry, narcissism and a tendency for greater risk-taking and vulnerability. Four of the biggest casualties of the 2008 credit crisis – two UK banks (HBOS and RBS) and two large US financial institutions (Fannie Mae and Freddie Mac) – are used to illustrate this conceptual development. The contribution of this paper is fivefold. First, this paper contributes the theoretical innovation of the idea of twin organizations to the organization studies literature. Second, it casts a fresh light on four of the organizations that got most deeply into trouble in the credit crisis. Third, it contributes to other areas of organizational scholarship, specifically, the theory of risk and the theory of organizational identity. Fourth, this paper acts as a warning by identifying similar phenomena in the on-going eurozone crisis, and fifth, it contributes to our understanding of risk management practice and organizational consultancy.

KEY WORDS

credit crisis; narcissism; psychoanalysis; psychodynamics; sibling rivalry; twin organizations

INTRODUCTION

In this paper I make a new contribution to the field of organization studies by proposing and exploring the idea of highly similar ‘twin organizations’. At the core of the paper lies the idea that twin organizations may find that each other’s very existence constitutes an assault on their own pride and unique sense of identity, and, in responding to this, may be impelled towards narcissism and to establish identities that expose them to unnecessary risk. The theoretical innovation of the concept of twin organizations is illustrated by reference to certain of the organizations that got most deeply into trouble in the 2008 credit crisis. As well as contributing a new idea to organization studies, and also a new angle on some of the largest casualties in the 2008 credit crisis, this paper makes a contribution to the theory of organizational risk because it suggests that the ‘incubation period’ (Turner, 1976; Turner and Pidgeon, 1997) of risk in such organizations reaches back as far as the act of their creation, which, together with more recent events, may propel them towards collapse. Further, by proposing that – in trying to create unique and special identities – twin organizations may be inclined to engage in high-risk behaviour, this paper contributes to the theory of organizational identity. This paper also makes a contribution by examining of *prima facie* evidence that similar problems have played a role in the eurozone crisis. Finally, this paper has practical implications for those engaged in risk management practice, and also for those consulting to organizations.

The 2008 credit crisis has already spawned a considerable amount of literature. Krugman places particular emphasis on the role of the shadow banking system (2008, p. 163); Shiller (2008) focuses on the housing bubble; Tett (2009) examines the industrialization of financial

innovation at J.P. Morgan; Klimecki and Willmott (2009, p. 121) explore the dangers inherent in capitalism's use of securitization; while Gamble, (2009, p. 42) identifies flaws in the growth model of capitalism as the problem in the background to the crisis. Others focus on the failures of regulators (Jain, 2009); the role of auditing and accounting practice (Arnold, 2009; McSweeney, 2009; Sikka, 2009), unrestrained greed (Tett, 2009), hubris (Jain, 2009, p. 99), mania (Stein, 2011) and narcissistic leadership (Stein, 2013) in the lead up to the crisis. Still others propose alternative views such as those provided by the Yin/Yang lens of Chinese philosophy (Li *et al.*, 2012).

While these studies have contributed to our comprehension of the credit crisis, we have yet to gain a fuller understanding of why some organizations got into difficulty rather than others. My purpose is to deepen our understanding of this specific question. I do so by examining two sets of highly similar organizations, HBOS (Halifax Bank of Scotland) and RBS (Royal Bank of Scotland) on the one hand, and Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation) on the other.

This study draws on psychoanalytic theories of sibling and twin rivalry (Burlingham, 1949, 1963; Freud, 1925/1977, 1930/1985; Mitchell, 2003) and the psychoanalytic view of narcissism (Brown, 1997; Freud, 1914/1984; 1930/1985; Stein, 2003). It contributes to studies that apply psychoanalysis to group and organizational dynamics (Brown, 1997; Clancy *et al.*, 2012; Diamond and Allcorn, 1987; Fotaki, 2011; French and Vince, 1999; Kociatkiewicz and Kostera, 2009; Roberts, 1997; Stein, 2003; Tuckett and Taffler, 2008) and – by focusing specifically on inter-organizational relations (i.e. relations between different parts of the system) – contributes to systems psychodynamics (Gould *et al.*, 2001). Drawing on this literature, I argue that the rivalry frequently witnessed among siblings and especially twins is

likely to become manifest in organizations that are highly similar. Based on this reading, I postulate the new idea of twin organizations. I argue that, within the context of an existing culture of greed and mania that had existed in financial markets for some decades, twin organizations were especially prone to narcissism and rivalry and to indulge in the excesses that led to the 2008 crisis.

I structure my paper in the following way. I begin by providing a rationale for the choice of cases used in this paper, and then outline the paper's methodology. I turn then to the theoretical framework of the paper, following which I turn to the analysis of the cases. I then move on to a discussion, following which there is a conclusion.

THE CHOICE OF CASES

At the outset, some justification needs to be provided for the use of specific credit crisis organizations – rather than the broader phenomenon of the credit crisis – as the unit of analysis. While other studies have focused on the wider vulnerability of the financial system in the lead up to the credit crisis, there is also an argument for getting a better and more focused purchase on why specific organizations within the financial system were more vulnerable than others. After all, not all large financial institutions got into difficulty, and, of those that did, some were much more problematic than others.

Moving on to the particular selection of cases made in this paper, there are clear reasons for the choice of the four organizations examined here. Beginning with the British-based examples, the debacle at HBOS and RBS caused deep concern within the UK's economic and political communities: Kerr and Robinson (2012) go as far as to argue that the banking elite

that ran the two Scottish banks enacted a form of ‘symbolic violence’, one which had major and widespread consequences. While the nationalization of banks of their size would have hitherto been unthinkable, the magnitude of the problems at HBOS and RBS – the two largest British failures in the credit crisis – provided the UK government with little alternative. Having persuaded Lloyds TSB to take over HBOS, UK Prime Minister Gordon Brown – in a move unprecedented in the country – injected £37 billion (in October 2008) and then a further sum of over £30 billion (in November 2009) into RBS, HBOS and Lloyds TSB, thereby effectively nationalizing them and putting them under state control.

On the other side of the Atlantic, while several major US financial institutions got into difficulty in the credit crisis, Fannie Mae and Freddie Mac were – from both economic and political points of view – arguably the most worrying casualties. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSEs) that function in the ‘secondary’ US mortgage market by purchasing and securitizing mortgages in order to ensure that funds are consistently available to the institutions that lend money to US homebuyers. In other words, they do not themselves provide mortgages for homes, but rather – using money invested with them and leverage with money they do not have – they buy and securitize mortgages provided by banks and building societies.

By the time of the tumultuous events of September 2008, Fannie Mae and Freddie Mac had a vast amount – some \$5.4 trillion – of outstanding securities and debt, a quantity equal to the entire debt of the United States (Thompson, 2009, p. 18). While the consequences of a collapse would have been unthinkable for American society and economy, the effects would have rippled way beyond US shores. In particular, the Chinese government held hundreds of billions of dollars of Fannie and Freddie stock, an amount that totalled more than 10% of

China's GDP. Fannie and Freddie thus held what former Treasury Secretary Lawrence Summers has described as the 'balance of financial terror' between the US and East Asia (Pagano, 2008). According to Yu Yongding, a former advisor to China's central bank, the collapse of Fannie Mae and Freddie Mac would have been 'catastrophic' and would have spelt 'the end of the current international financial system' (quoted in Thompson, 2009, p. 18). In one of the biggest financial bailouts in history, on 7th September 2008, Fannie Mae and Freddie Mac were placed under a state of 'conservatorship', a move tantamount to nationalization. By August 2010 a total of \$148.2 billion had been invested by the US Treasury in the two institutions.

In justifying the selection of cases examined in this paper, one key rationale is therefore their magnitude. While there were other significant failures in the credit crisis, an explanation that sheds light on the two biggest UK casualties, as well as two of the largest US casualties, would seem worthy of consideration.

A second rationale for examining these four cases is that there is by now a substantial body of information on which to base such a study, and an in-depth examination of the kind offered in this paper is made possible by the wealth of material not previously available. In this paper, I drew on five books (Gamble, 2009; Krugman, 2008; Shiller, 2008, Sorkin, 2009; Tett, 2009) and seven scholarly articles (Arnold, 2009; Hopwood, 2009; Jain, 2009; McSweeney, 2009; Sikka, 2009; Stein, 2011; 2013) that examine the various aspects of the credit crisis; two books (Perman, 2012; Martin, 2013), two articles (Kerr and Robinson, 2011; 2012) and the report by the House of Commons Scottish Affairs Committee (2010) specifically concerned with HBOS and RBS; and two books (Acharya *et al.*, 2011; Hagerty, 2012) and eight articles (Koppell, 2001; Peterson, 2009; Frame and White, 2004, 2005; 2007; Thompson, 2009;

Wallison, 2009; Wallison and Calomiris, 2009) that examine Fannie Mae and Freddie Mac, as well as the report by the United States Congress House of Representatives Committee on Oversight and Government Reform (2009) on the two American Government Sponsored Enterprises. Some of these books and articles are based on large numbers of interviews with key players in the events examined in this paper, others are authored by insiders directly involved, while still others provide verbatim records of enquiry testimony into these events. I also drew on a number of newspaper articles and websites.

A third rationale for undertaking this study at this point in time is that there are indications that rivalry and excessive risk taking among twin organizations is also worryingly present in the eurozone crisis. Specifically, I will argue that there is already evidence of twin organization phenomena in at least two eurozone countries, Ireland and Cyprus. This paper is therefore intended to act as a warning regarding the on-going eurozone crisis, and the relevance of this study to problems in the single currency area makes this a particularly timely and, hopefully, significant study.

METHODOLOGY

The analysis offered in this paper is located within the growing tradition of text-based research intended to further our understanding of specific cases (Brown and Jones, 2000; Gephart, 1993), within which are studies that use the lens of psychoanalysis to understand such cases (Stein, 2003; 2013). Psychoanalysis – and its application to organizational dynamics – is regarded as helpful because it facilitates an understanding of the less obvious meanings that underlie human functioning, and I draw on the psychoanalytic conceptual framework for this reason.

Information from the text-based sources mentioned above was collected together and annotated using the approach of Burgess (1991), whereby substantive notes (concerning observations), methodological notes (concerning impressions) and analytic notes (concerning preliminary analysis) were taken. Following Brown's view that qualitative analysis is valuable because it allows for 'the highlighting of nuances of meaning and sensitivity to language used' (2003, p. 108), and consistent with a psychoanalytic perspective, this paper uses a qualitative and thematic – rather than quantitative – approach. Illustrations of this qualitative analysis, in the case of HBOS and RBS, are that the idea of 'two brothers' (Perman, 2012, p. 15) is seen to support the theme of similarity, while 'centuries long rivalry' (Martin, 2012, p. 92) is understood to support the theme of rivalry; in the case of Fannie Mae and Freddie Mac, the term 'clone' (Hagerty, 2012, p. 17) is seen to provide evidence for the theme of 'similarity', and 'competitive race' (Acharya *et al.*, 2011, p. 48) is seen to support the theme of 'rivalry'.

Using the method of Lawrence (1985) and Miller (1993), and drawing on psychoanalytic ideas, these themes were brought together using 'because clauses' to create a variety of working hypotheses. These working hypotheses were then subject to several rounds of scrutiny during which they were modified, linked-together or discarded, a method well-established elsewhere in qualitative research (Burgess, 1991; Cresswell, 1994; Robson, 1993). One example was the hypothesis that the difficulties facing twin organizations emerged because of problems in their relations with governments and regulatory agencies, which could be understood to be 'parental organizations' in relation to them. However, following several further rounds of scrutiny, it became clear that the rivalry of the twin organizations was more focused on their competition for prestige and market share, than on their relationships with

governments and regulators, leading to the discarding of the hypothesis that linked twin organizations with parental organizations. This then enabled a revised twin organization hypothesis to be formulated, and the working hypothesis at the core of this paper was eventually arrived at. According to this hypothesis, the organizations examined in this paper got into difficulty because of unconscious sibling and especially twin rivalry for prestige and market share. It is argued that this working hypothesis is convincing because, while other views provide only a limited understanding of why these organizations were especially vulnerable in the credit crisis, this view takes our understanding much further, providing an account of how and why they got into difficulty.

Although this study was undertaken with considerable care, it is acknowledged that other valuable angles focusing on different issues have been taken of the credit crisis. Further, methods of data collection such as interviews and ethnographic observation were not used here, and this needs to be acknowledged as a limiting factor in this study. This study is therefore ‘reflexive’ (Hammersley and Atkinson, 1983; Gill and Johnson, 1991) insofar as it is conceived with an awareness that my account of these cases constitutes my own particular view; was conducted within a particular scholarly discourse (Brown and Jones, 2000); and necessarily privileges some voices rather than others (Pentland, 1999). That said, it is hoped that the view offered here helps, in a novel way, to extend our understanding of these important cases.

TWIN ORGANIZATIONS: A THEORETICAL FRAMEWORK

Introduction

I turn now to the theoretical framework of this paper, that of psychoanalysis. At the outset, it should be acknowledged that a variety of sub-disciplines – such as Jungian archetypal psychology (Kociatkiewicz and Kostera, 2009), psychoanalytic post-structuralist feminism (Fotaki, 2011), Kleinian theory (Clancy *et al.*, 2012) and systems psychodynamics (Gould *et al.*, 2001) – have already influenced the intellectual terrain of psychoanalytically inspired works within organization and management studies. These perspectives have advanced debates in a number of different areas.

In this paper I draw specifically on three sub-disciplines from within the broad area of psychoanalytic scholarship. One sub-discipline focuses on studies of sibling and especially twin relationships (Burlingham, 1949; 1963; Colonna and Newman, 1983; Freud, 1925/1977, 1930/1985; Mitchell, 2003; Sherwin-White, 2007); a second sub-discipline concerns the psychoanalytic study of narcissism (Brown, 1997; Freud, 1914/1984; 1930/1985; Gabriel, 1997; Kets de Vries and Miller, 1985; Stein, 2003); while a third applies psychoanalytic theory to organizational and social phenomena (Gould *et al.*, 2001). Drawing on these sub-disciplines, the theoretical framework outlined below begins with the argument at individual level, and then moves on to explore these issues at organizational level.

Individual level

The psychoanalytic study of sibling rivalry at an individual level can be traced back to the earliest works of Freud (1925/1977), in which it is argued that because siblings are competing for the love and attention of the same parents, their relationships are sometimes characterised by ‘intense jealousy, rivalry and envy’ (Mitchell, 2003, p. 11). In essence, the problem is that

the sibling ‘is *par excellence* someone who threatens the subject’s uniqueness’ (Mitchell, 2003, p. 10), and it is this threat that may put siblings at loggerheads with each other.

What defines this rivalry – and differentiates it from the more ordinary idea of competition – is that it is at least in part unconscious. Psychoanalytic perspectives suggest that it would be too painful for siblings to fully understand the nature and depth of their feelings; that the source of their rivalrous feelings is connected to an unyielding desire to be noticed and liked by the parents, and to inhabit their territory; and that other siblings are felt to be a direct threat to these needs. These feelings are thus likely to be repressed and consigned to the unconscious mind, so that siblings are unlikely to be fully aware of how their activities are shaped by these rivalries, and unaware of why they may have such intense feelings and ambivalence about the achievements of each other. This focus on sibling rivalry has continued in subsequent psychoanalytic writings (Colonna and Newman, 1983; Mitchell, 2003; Rustin, 2009; Sherwin-White, 2007).

The psychoanalytic literature on twins derives from this literature on siblings, emphasizing that twins most vividly embody the issue of similarity between two people. Sibling rivalry is intensified in the case of twins because their identities – even more similar than other brothers and sisters – are necessarily bound up with each other. As Cohen puts it, if a child is a twin, the process of identity formation ‘is complicated by the constant presence of another child, a replica of himself’ (1981, p. 47). This constant presence may therefore be felt by both twins as an assault on the sense of who they are, on the uniqueness of their identities.

A central challenge for siblings and especially twins is that – because it is felt as an encroachment into their territory, sense of identity and dignity – this similarity may lead them

to act defensively and develop exaggerated feelings of pride and apparent over-confidence in their abilities. Their similarity may therefore strengthen the narcissistic dimensions of their personalities, with narcissism being understood as a state of self-admiration and self-love (Freud, 1914/1984).

Freud's concept of the 'narcissism of minor differences' (1930/1985, p. 305) – the idea that people who are very similar to each other are especially inclined to narcissism – is highly relevant. Feeling a wounded sense of pride insofar as they are consistently compared to another and may therefore feel neither unique nor very special, such highly similar people might have a tendency to try to reassert their unique, special and narcissistic sense of identity. Relevant here is also the notion of a wound or 'narcissistic scar' (Freud, 1920/1984, p. 291), a term that gives expression to the deep perception of damage and hurt pride that strengthens the inclination towards narcissism; in the case of siblings or twins, such a scar would be seen to emerge specifically from their relatedness to each other. Twins may therefore be especially at risk of being prone to the key aspects of narcissism that many individuals struggle with.

Given these issues, the dynamics of the relations between twins are complex. As a result of their close similarity, both twins are likely to want to find ways to establish that they are different and superior to each other. Being different and superior, at least for a time, may enable twins to apparently heal the narcissistic wound that they have to compete with someone with whom they are alike. However, in tension with the twins' desire to be different from one another, according to the psychoanalytic literature, is the contrary inclination to copy each other. Copying (or 'mimicking') activities are likely to be central to the twin's world (Burlingham, 1949; 1963) because they are felt to strengthen the bond between them and provide a feeling of reassurance. Copying may take the form of doing something similar

and apparently equivalent to the other, or doing something similar and apparently better than the other. Sometimes copying activity can lead to a need for differentiation, and at other times, differentiation may be followed by copying.

While a successful resolution to these issues is sometimes possible, difficulties are typically likely to arise if one twin has been particularly successful in creating and establishing an identity that is seen to be different and ‘special’, because it may evoke a strong response in the other twin. Problems are likely to be acute if – in trying to achieve such a special and different identity – a twin places him/herself in the path of danger, both because of the risk this poses to that twin, and because this may encourage the other twin to follow suit and copy it. Thus, twins may be caught in an entangled dynamic of alternately copying and differentiating themselves from each other, sometimes with worrying consequences.

Organizational level

This paper applies the above individual-level psychoanalytic concepts to the levels of groups and organizations, as well as exploring the relations between these levels. This approach rests on the view that organizations are psychodynamic systems that are influenced by shared unconscious feelings that shape how they function (Gould *et al.*, 2001). While some of these feelings are shaped by issues within an organization (such as the nature of its task), others are shaped by inter-organizational relations (such as rivalry with another organization). Because a central concern in this paper is inter-organizational relations (i.e. relations between different parts of a system), this study is squarely located within the tradition of systems psychodynamics (Gould *et al.*, 2001). Although diverse feelings are of course experienced among members of an organization, it is argued that certain thoughts and feelings are shared,

and that some of these are held unconsciously. Thus, certain individuals may serve as spokespeople (Horwitz, 1985, p. 29), enacting underlying, unconscious ideas on behalf of the organization and its members. The claim therefore is not that the organization *per se* has feelings, but rather that individual members and leaders have similar, shared (and often unconscious) feelings, and that these are then acted upon. References in this paper to how organizations respond and function should therefore be understood as a short-hand for the way in which the shared feelings of its members – enacted by certain spokespeople – shape how they operate.

Extending current debates concerning inter-organizational relations within the systems psychodynamic approach, this paper takes up the idea that highly similar organizations are subject to the dynamics of sibling and especially twin relationships. Using this approach, I introduce here the term ‘twin organizations’, which I define as two organizations that have highly similar identities in several – although not necessarily all – of the following respects: they operate within the same or similar geographic boundaries; have their head offices geographically close to each other; work within similar task boundaries; operate within the same regulatory frameworks; have similar histories; and have similar names.

I argue that the rivalry that ordinarily exists between organizations will be much strengthened in the case of twin organizations because they invariably reference themselves in relation to each other. Just as twins may fight over the interest and attention of parents, so twin organizations are likely to fight over what is significant for both of them, their shared territory, their shared sense of prestige, and most especially, their share of the market. This is felt to be a zero-sum game because any advancement in the position of one of the twin organizations is likely to be experienced to be to the detriment of the other.

Because it threatens the unique and special sense of identity of each of the organizations, this rivalry may lead to an increase in organizational narcissism. Brown (1997) has argued that, similar to individuals, organizations can manifest the qualities of narcissism, while Stein (2003) has explored the key characteristics of narcissistic organizations. In this paper I propose further that, as with twins at the individual level, so twin organizations may be seen to manifest the phenomenon identified by Freud (1930/1985) as the ‘narcissism of minor differences’: intense rivalry between twin organizations is likely to strengthen their narcissistic tendencies, because their similarities may be felt to encroach on their pride and their unique sense of identity.

Twin organizations may therefore manifest highly problematic dynamics. Specifically, if a twin organization has managed to create what is perceived as a special, different and potentially unique identity, the other twin may be inclined to copy and better its rival. Creating a new identity that is seen to be similar but better than one’s rival organization is felt to be helpful because there is a sense of reassurance in doing what the other has done and not falling behind, and also because it is felt to mitigate the narcissistic wound of being compared with – and possibly being seen as inferior to – the other organization.

While there are some circumstances in which this cycle of differentiating and copying is benign, there are others in which it may become highly problematic. In particular, having witnessed its twin organization establish an identity that may expose it to extreme risk, the other twin organization may feel impelled to follow unthinkingly and without due regard to the consequences, and attempt to surpass the twin organization precisely in the area in which

it seems to have achieved differentiation. In turn, this may then stimulate the successful twin to react, so that the two organizations enter a highly dangerous spiral of excessive risk-taking.

THE ESTABLISHMENT OF TWIN ORGANIZATIONS IN THE UK AND THE US

The UK-based organizations HBOS and RBS share a number of critical features that make them very alike. Both banks have long and esteemed histories. Bank of Scotland – part of HBOS – was created by an Act of the Parliament of Scotland in 1695, making it the UK's oldest commercial bank. It has its headquarters in a beautiful 300 year-old building on 'The Mound' in Edinburgh. With Bank of Scotland raising funds for the Jacobite Rebellion, in 1727 a bank with strong Whig (i.e. liberal) ties was created in opposition to this by the Royal Charter of King George 1. With its head office on St Andrew Square, just a few minutes walk from The Mound, this was to be called Royal Bank of Scotland (RBS). 'From the start', RBS was 'a formidable competitor ...[that used] its position and its muscle to try to drive the Old Bank [i.e. Bank of Scotland] out of business' (Perman, 2012, p. 15).

Both institutions issue Scottish banknotes bearing their names. This is highly unusual for commercial banks as generally – such as in the USA, the eurozone countries and England – a central bank or treasury has the sole and exclusive responsibility for issuing notes. The issuing of banknotes gives the Bank of Scotland and Royal Bank of Scotland a unique and esteemed place in Scottish economy and society, and, by emblazoning these notes with images of Scottish scenes and heroes, this practice helps them to assert their special Scottish identity. With the names of the two institutions both including the words 'Bank' and 'Scotland', as well as sharing their special note-issuing status, rivalry between them has always been fierce.

This rivalry is added to by the geography of the Edinburgh-based institutions as well as the shared social backgrounds of their leaders. As Kerr and Robinson point out, the institutions are joined together in a common geographic constellation ‘that connects the Mound (the site of the Bank of Scotland headquarters) and St. Andrew Square (site of the Royal Bank’s head office until 2005)’ (2011, p. 155). These close connections lead the two banks to have an ‘historical enmity’ (Martin, 2013, p. 100) that has involved a degree of mutual hatred (Martin, 2013, p. 36). HBOS and RBS are therefore like ‘two brothers ...[in an] in an intensely competitive ...sibling relationship’ (Perman, 2012, p. 15), in which the animosity runs deep, and goes back over many centuries. I thus argue that, in spite of certain differences that emerged over time, at a symbolic level they have always been ‘twin organizations’.

Turning to the US-based Fannie Mae and Freddie Mac, once again we find two extremely similar organizations. In 1938, in the wake of the Great Depression, Fannie Mae was founded as a government-run organization to support the country’s mortgage market. In 1968 the US government converted Fannie Mae into a private stockholder-owned corporation, and in 1970 it created Freddie Mac to ‘serve a similar role as’ (Peterson, 2009, p. 156) – and provide competition with – Fannie Mae, making the two clear rivals (Hilzenrath, 2004). Central to their mission is the requirement to widen home ownership especially for the poor, the virtues of which has been eagerly extolled by their leaders (see for example, Acharya *et al.*, 2011, p. 112), and this has provided them with a certain ‘special’ status. As Government Sponsored Enterprises they occupy unusual, hybrid positions, being stockholder-owned corporations that are simultaneously supported by an implicit government guarantee.

While in principle Fannie Mae and Freddie Mac do have other competitor organizations (Frame and White, 2004), in practice their implicit government guarantee provides them with a shared ‘aura of specialness – a ‘halo’’ (Frame and White, 2007, p. 87). This puts them in a separate category that makes them ‘the two dominant entities in the finance of residential mortgages’ (Frame and White, 2004, p. 56) in the US, setting them entirely apart from all others. These special characteristics, during the decade prior to 2008, meant that both organizations had debt rated safer than AAA-rated corporate debt; both had extremely low costs of capital; both were exempt from state and local taxes; both (unlike other financial organizations) were exempt from having to maintain a capital/asset ratio greater than or equal to 3%; and both had vast, guaranteed lines of credit from the US government, totalling \$4.5 billion.

In sum, as Fannie Mae and Freddie Mac are tasked purely and exclusively with supporting the US housing market by buying and securitizing mortgages, they remain highly similar organizations. Unlike other financial institutions, therefore, they are unable to achieve differentiation by, for example, diversifying or engaging in mergers and acquisitions. The restrictions under which Fannie Mae and Freddie Mac operate have therefore ensured that their activities are ‘virtually identical’ (Frame and White, 2004, p. 57). Freddie Mac may thus be seen as the ‘clone’ (Hagerty, 2012, p. 17) of Fannie Mae. This close similarity inevitably makes Freddie Mac the rival and direct competitor of Fannie Mae, and the two could thus also be understood to be ‘twin organizations’.

HBOS AND RBS IN THE LEAD-UP TO THE CREDIT CRISIS

Although twin organizations bear a strong resemblance to each other, it is sometimes possible for them to diverge. Indeed, as has been argued, there may be strong pressures on each of them to create an identity that is different and superior to that of their twin, and this is what happened in the high-stakes *fin de siècle* battle that ensued between HBOS and RBS. It was in 1999 that – in what was to become the largest hostile takeover battle in UK corporate history – Bank of Scotland (as HBOS then was) launched a bid for the much larger English bank, NatWest. However, as soon as Bank of Scotland launched its bid, ‘its old rival, the Royal Bank of Scotland, entered the fray’ (Perman, 2012, foreword xi), showing a strong interest in competing with its arch-rival.

Sharing ‘a similar social trajectory’ (Kerr and Robinson, 2011, p. 159), at the centre of the struggle were RBS CEO George Mathewson and Bank of Scotland Governor Peter Burt, two rival leaders (Martin, 2013, p. 212). ‘[F]iercely competitive and combative’ (Perman, 2012, p. 42), and with a ‘vision of a Scottish banking colossus’ (Martin, 2013, p. 142), Mathewson put in a bid for RBS that triumphed over that of its rival, and through its takeover of the London-base NatWest, a bank three times its size, it was able to create the second largest banking group in the UK. Not only was this a battle for size, but with NatWest’s distinctive City of London headquarters – for a decade the tallest building in the UK – this was a battle for pride and status that signalled which of the two Edinburgh-based banks had been victorious in securing a major niche in UK and, more widely, global financial markets.

RBS’ 2000 triumph therefore created the widely held perception that it had established itself as different from and superior to Bank of Scotland, as if it ‘had won Scottish banking’s civil war’ (Flanagan and Jamieson, 2005). This in turn signalled to Bank of Scotland that it needed to match or better RBS by finding another institution to take over. ‘Having lost the bid [for

NatWest] it could not afford to stand still' (Perman, 2012, foreword xii), and Bank of Scotland therefore responded immediately by putting forward a bid to merge with Halifax, one in which it was successful. Through its 2001 merger with Halifax, a bank that had the largest share of the UK mortgage market, the newly merged bank (HBOS) was positioned at the centre of the UK property market, making it the UK's 'biggest mortgage bank' (Sorkin, 2009, p. 347). Based in Edinburgh, and with 57,000 staff and over a thousand branches, the new organization would be the UK's fifth largest bank and have a vast stake in the UK's mortgage market. HBOS' first Chief Executive James Crosby gave voice to views within the newly merged company when he announced that they would 'generate as much pain as possible for our competitors. It is nothing personal' (quoted in Perman, 2012, p. 95).

Following this, HBOS continued to engage in vast expansion as well as highly dangerous risk-taking, leading to considerable concern in the City of London (Perman, 2012, p. 129). Much of the focus of HBOS' expansion was in the area of property. In spite of having the largest share of the UK's mortgage market, it was determined to push its expansion plans relentlessly forward.

HBOS' pivotal position in the mortgage market, in turn, put considerable pressure on twin organization RBS to 'up the stakes' in order to attempt to match and better it. In particular, the key difference between HBOS and RBS during the first few years of the 21st Century – that HBOS had bought a vast organization that operated in the property sector – put RBS in a position where it seemed compelled to massively increase its position, ideally in the property market.

RBS' expansion was led by CEO Fred Goodwin, known as 'Fred the Shred' or 'Fred the Impaler' (Perman, 2012, p. 83). Reputed to want to expand RBS until it became the biggest bank in the world, Goodwin increasingly threw caution to the wind in his attempt to enlarge the company, especially in his pursuit of ABN Amro, the Netherlands' biggest bank, one that was heavily involved in the US sub-prime property sector. In spite of ABN Amro being 'overvalued' and loaded with toxic debt' (Kerr & Robinson, 2012, p. 257), and in spite of warnings that it would be 'insane' (Martin, 2013, p. 245) to buy it, RBS pursued the company. Finally, in October 2007, Goodwin – who was 'fixated' (Martin, 2013, p. 246) and 'apparently obsessed by the pursuit of ABN Amro' (Kerr and Robinson, 2012, p. 257) – went ahead and purchased the company, paying £49 billion, 80% of which was in cash.

The acquisition of ABN Amro was one of the most problematic business decisions ever taken by a UK company, an extraordinary misjudgement, without which RBS would have escaped the worst of the credit crisis. Following the bailout, Goodwin became a hate figure within UK society, earning the title of the 'world's worst banker'. Subsequently, in a move unprecedented in British corporate history, both RBS' Goodwin and HBOS' Crosby were stripped of the knighthoods they had received for their services to British banking. Further, as the official House of Commons enquiry suggested, there were concerns that the debacle may inflict 'irreparable damage' (2010, p. 40) on Scotland's financial services industry.

In conclusion, as twin organizations referencing themselves against each other and locked in bitter rivalry, each of these organizations – HBOS and RBS – was trapped in a cycle of mimicry and differentiation that was intended to triumph in relation to the other, regardless of the risks involved. The intense competition between the twin organizations thus strongly predisposed them to narcissism and excessive risk-taking during the incubation period of the

credit crisis. These organizations therefore engaged in a race for supremacy of unprecedented proportions, one that ultimately had disastrous consequences for the UK economy and taxpayer.

FANNIE MAE AND FREDDIE MAC IN THE LEAD-UP TO THE CREDIT CRISIS

Turning now to Fannie Mae and Freddie Mac, these were, as has been observed, also very similar organizations operating in an increasingly risky manner. It is worth noting that – through a variety of regulatory and legal changes initiated by the US government – the similarity between the two organizations increased significantly in 1989 and during the 1990s. Indeed, while the highly similar HBOS and RBS took action to differentiate from each other, this was not possible for the American institutions. By way of contrast, changes in the nature of the strict control of Fannie Mae and Freddie Mac by government charter actually made the two organizations more alike over time, leading to an increase in their rivalry and risk-taking.

A number of these changes occurred in 1989 when the rules concerning Freddie Mac were altered: one aspect concerned the fact that, during its first two decades, Freddie Mac – unlike Fannie Mae – was unable to raise money by selling shares to the public. In 1989 the government changed course and brought Freddie Mac into line with Fannie Mae by allowing it to sell shares, so that the two organizations operated under a congressional charter ‘that established an identical special relationship with the government’ (Wallison and Calomiris, 2009, p. 72).

Alongside this was a change in the kind of business Freddie Mac did. While as Government Sponsored Enterprises operating in the secondary mortgage business, the two companies had

always shared a number of similar characteristics, from its inception until 1989 Freddie Mac was distinct insofar as it was created specifically to securitize Savings & Loans Associations (S&Ls) (Frame and White, 2005, p. 161). However – especially in the light of the on-going Savings & Loans crisis (that involved the failure of hundreds of S&Ls) – in 1989 Freddie Mac was allowed to shift course and securitize mortgages originated by other sorts of institutions, so that ‘the two companies’ structures and strategies looked quite similar’ (Frame and White, 2005, p. 161). Then, just three years later, the 1992 Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA) created new rules for Fannie Mae and Freddie Mac, and also established a new and dedicated regulatory agency – the Office of Federal Housing Enterprise Oversight (OFHEO) – especially for them. In sum, the legal and regulatory changes of 1989 and 1992 made Fannie Mae and Freddie Mac even more alike so that they became almost identical.

These increased similarities intensified the competition between the two organizations and were followed immediately by the ratcheting up of their risk-taking. Referring to the events of 1989, the decision to allow Freddie Mac to sell shares strengthened its position as ‘a competitor of Fannie Mae’ (Wallison and Calomiris, 2009, p. 72), and this thereby started a ‘competitive race to the bottom’ (Acharya *et al*, 2011, p. 48) between the two organizations. The rivalry was further intensified by the 1992 FHEFSSA legislative changes: as Acharya *et al*. argue, Fannie Mae and Freddie Mac ‘had crossed their own Rubicon in the mid-1990s after the passage of FHEFSSA’ (2011, p. 40) by dramatically increasing their risk taking. Copying was a central feature of the rivalry between the two organizations. For example, both sent out signals beginning in 2004 that they were ready to increase their commitment to junk loans, with Howell Raines (Chairman of Fannie Mae) and Richard Syron (Chairman of

Freddie Mac) making speeches to the Mortgage Bankers Association to this effect that year (Wallison and Calomiris, 2009, p. 77).

With the intense competition between them, and ‘desperate to find ‘goal-rich’ mortgages’, as Hagerty argues, ‘Fannie and Freddie could be induced to be bid against each other’ (2012, p. 156). Central to the problem was the fact that they shared a unique market and regulatory space that bound them together in intense rivalry. As Edward Pinto put it in his testimony to the US Congress House of Representatives Committee, Fannie Mae and Freddie Mac were part of a ‘duopoly ...[in which they were]... competing against each other for the same loans’ (United States Congress House of Representatives Committee on Oversight and Government Reform, 2009, p. 337). This ratcheting up of rivalry continued well into the first few years of the 21st Century.

By the time of the onset of the credit crisis (around 2005-2006), when US house prices started their dramatic slide, the extraordinary escalation of risk-taking in the two organizations had placed them in a highly dangerous position. The problems continued to burgeon and the two became ‘uncontrollable and systemically risky behemoths’ (Acharya *et al.*, 2011, p. 6).

The high-risk nature of their situation comprised of several key elements. First, Fannie Mae and Freddie Mac underwrote a vast number of highly risky and suspect sub-prime and Alt-A loans, many of which were so-called ‘NINJA (no income, no job, no assets) or ‘liar’ loans’ (Acharya *et al.*, 2011, p. 47). Buoyed up by US government policy that encouraged widespread home ownership, they therefore went to extreme measures to gain supremacy in this market, leading to the destruction of proper underwriting procedures in both companies, a decline that was evident in their financial disclosures (Wallison, 2009, p. 370).

Second, as the capital requirements of Fannie Mae and Freddie Mac were extraordinarily light (Acharya *et al.*, 2011, p. 24), they were able to gamble using a vast leverage ratio (the ratio of debt to capital) of 75:1, one that ‘makes Lehman Brothers [with a leverage ratio of 31:1] look like they were operating conservatively’ (United States Congress House of Representatives Committee on Oversight and Government Reform, 2009, p. 135). This high-risk strategy was to have serious consequences when financial markets started to implode.

Third, with vast numbers of suspect mortgages and using highly dangerous leverage ratios as outlined above, the two organizations carried a high degree of systemic risk (Frame and White, 2007, p. 84; Acharya *et al.*, 2011). This risk was already clear to Treasury Secretary Lawrence Summers as early as 1999 (Acharya *et al.*, 2011, p. 61; Hagerty, 2012, p. 111). Koppel also warned in 2001 that unforeseen shifts in the market could have ‘catastrophic consequences’ (2001, p. 473) for Fannie Mae and Freddie Mac, while Federal Reserve Chairman Alan Greenspan reiterated the ‘very serious risks’ (Hagerty, 2012, p. 127) they posed for the US financial system. All major types of systemic risk – counterparty risk; public utility risk; risk of a run on institutions; and fire sale risk – were at stake (Acharya *et al.*, 2011, p. 65).

By 2008, with their combined assets being 45% larger than those of the US’ biggest bank Citicorp, they had become almost unimaginably vast. Particularly shocking were the \$3.5 trillion worth of credit guarantees that the two companies made which, if they were allowed to fail, would have been ruinous for the banking sector, pension and mutual funds in the USA (Acharya *et al.*, 2011, p. 67), as well as the entire global financial system. The difficulties that the two companies got into – resulting in bailouts of \$148.2 billion by August 2010 and the

purchase of more than \$1.4 trillion of their debt and securities – placed them at the ‘epicentre of the financial crisis’ (Thompson, 2009, p. 17), involving an intervention of unprecedented magnitude, arguably the largest in the history of the US Federal Reserve Bank (Acharya *et al.*, 2011, p. 100).

This all suggests that, while the histories of Fannie Mae and Freddie Mac were in some ways different from those of HBOS and RBS, the consequences were much the same. The evidence seems to suggest that twin organizations may become trapped in a dynamic whereby any change – either greater differentiation or greater similarity – is felt to be a provocation. Influenced by intense but largely unconscious feelings, members and leaders of each organization are thus largely unaware of how their feelings of being provoked draw on their own primitive sibling rivalry, and also unaware of the extent to which this shapes their actions. As a result, twin organizations get locked in a dynamic high-risk cycle that may, in certain circumstances, result in catastrophe.

DISCUSSION

This paper has a number of implications, including for the diverse debate on risk (Hood et al., 1992). Specifically, there are implications for the idea of an ‘incubation period’ (Turner, 1976; Turner and Pidgeon, 1997), the notion that crises and disasters rarely arrive *ex nihilo*, but usually emerge after a substantial period of time during which warning signals are present but not properly heeded. This paper gives shape to a particular aspect of the incubation of crises and disasters by proposing the idea that – because of their high degree of similarity – twin organizations may be especially inclined towards unrestricted and reckless risk-taking that becomes the norm over a substantial period of time. One area for further enquiry here

could be to focus on whether there are any major differences between the incubation of crises and disasters among twin organizations in finance vis-à-vis other sectors.

This paper also has important implications for the theory of organizational identity. Beginning with the work of Albert and Whetten (1985), a body of scholarship has developed over the past few decades focusing on organizational identity, defined as that which is central, enduring and distinctive about an organization's character. Scholars using ideas from psychoanalysis have contributed to these debates: Brown and Starkey (2000) have argued that, like individuals, organizations use ego defences to maintain collective self-esteem and the continuity of existing identity, while Brown (1997) argues that such self-regulation may be of a specifically narcissistic nature. Adding to this debate, this paper makes a contribution by proposing the idea that – because of the powerful similarity of their identities – twin organizations are inclined to experience intense rivalry, increased narcissism, and a tendency to ramp up their risk taking. An area for further enquiry would be to explore whether some twin organizations may engage in the more perverse form of narcissism that involves the idealization of destructiveness, as described by Rosenfeld (1987), rather than the type described in this paper.

There are also implications for our understanding of the organizations involved in the more recent, on-going eurozone crisis. While structural problems with the single currency (Marsh, 2009; Dedman, 2010, p. 150), as well as other factors, clearly played a central role in the eurozone crisis, there is also *prima facie* evidence for the role of twin organization phenomena. For example, the Irish part of the crisis – involving an unprecedented bailout of 85 billion euros in November 2010 – hinged in large part on the behaviour of two highly similar banks. Bank of Ireland was founded by Royal Charter in 1783, while Royal Bank of

Ireland – later to become part of Allied Irish Bank – was founded in 1836. Both banks are based in Dublin, and are direct rivals.

While other banks were also involved in the Irish crisis, Bank of Ireland and Allied Irish Bank were the biggest casualties. Highly over-exposed to the Irish property bubble that boomed during the first few years of the 21st Century, Irish banks went on to massively increase their foreign borrowing, from 15 billion euros in 2004 to 110 billion euros in 2008, a sum equivalent to 60 per cent of Ireland's GDP (Aherne, 2012). By 2009 the two banks were in serious trouble and had to receive bailouts of 3.5 billion euros each from the Irish government; subsequently the sum was significantly increased. In turn, with Irish banks having played a key role into levering the country into the crisis, the Irish government was forced to accept an unprecedented 85 billion euros bailout in November 2010. The subsequent difficulties that Ireland has faced are thus in substantial part due to the recklessness of these two banks.

The 2012/2013 Cyprus debacle also involved the delinquent activities of two very similar banks: 'Bank of Cyprus', based in Nicosia, the capital and the country's largest city, and founded in 1899 as the 'Nicosia Savings Bank'; and 'Cyprus Popular Bank', founded just two years later in 1901 in Limassol – Cyprus' second biggest city – as the 'Popular Savings Bank of Limassol'. In turn, 'Nicosia' and 'Limassol' were dropped from their respective names, with both taking on their new names that included 'Cyprus' and 'Bank'. They were differentiated only by the word 'Popular' or 'Laiki' (being the Greek word for 'popular'), with the Limassol-based bank being generally known as 'Laiki Bank'. They became the country's two largest banks, competing in almost every area of their business, often in extraordinarily high-risk ways.

The two Cypriot banks engaged in highly dangerous rivalry and risk-taking during the early years of the 21st Century. Having incurred massive losses in the property and credit crisis that came to a head in 2008, they continued to offer unrealistically high rates of return and then went on to invest – sometimes using emergency loans from the European Central Bank – in Greek bonds (Meek, 2013, p. 12). By late 2012 the two banks were in serious trouble, with their losses on Greek bonds increasing to 4.29 billion euros by February 2012, a vast sum for a relatively tiny eurozone country. The March 2013 bailout of the two banks – the first in the eurozone to penalize investors – did significant damage to the broader perception to Cyprus' economy and society, so that Cypriots will face 'years of hardship and painful structural reforms' (*The Economist* 27th April, 2013) over a substantial period of time.

This paper also has implications for risk management practice, one which is often dominated by the use of 'homeostatic' feedback and control mechanisms (Hood et al., 1992) that rely largely on quantitative data. Herein, however, lies the problem: the clear implication of this paper is that managing risk in twin organizations requires, alongside the evaluation of quantitative data, an understanding of the human dynamics of organizations, including and especially the emotional dimensions. Amongst others, there are particular implications for regulators: while the management of risk – rather than its eradication – lies at the centre of regulatory practice (Hutter, 2001, p. 4), regulators' comprehension of risk management is often conceived in the absence of an understanding of the kinds of issues explored in this paper.

There are also implications for those consulting to organizations. Drawing on the psychoanalytic and related systems psychodynamic approach used in this paper, there are

well-established approaches to consultancy that attempt to address the very problems identified here. Using a ‘disciplined attention to emotional experience’ (Armstrong, 2005, p. 32) that develops ‘experiential learning’ (Miller, 1993, p. 204) to focus on why something – rather than only what – is happening, such approaches are intended to help identify these essential, underlying issues. Consultants informed by such approaches are likely to develop ‘working hypotheses’ (Lawrence, 1885, p. 231) that, in the cases examined here, focus attention on the way in which intense sibling and twin rivalry can stoke up excessive and dangerous ambitions that put organizations at risk, with the hope of influencing leaders to put these organizations on a sounder footing and avert disaster. Of particular relevance here is the work of Sher (2013), who works with boards and who has also written on issues facing the financial services industry (Sher, 2013, pp 195 – 214); and the work of Lazar (2004), because he places the idea of the ‘narcissism of small differences’ (Lazar, 2004, p. 148) at the centre of much of his consulting practice.

CONCLUSION

In conclusion, at the core of this paper lies the idea that leaders and members of twin organizations may feel that their sense of pride and dignity are assaulted by the very existence of the other twin, and this might propel them to take highly irrational risks to boost the organization’s position vis-à-vis its rival, with potentially catastrophic consequences. This idea is innovative in relation to several areas of thought and literature. While rivalry and competition are familiar to all of us, the notion of twin organizations explored in this paper helps us to identify more specifically which organizations are especially prone to rivalry, and why. In relation our understanding of the credit crisis, while much has been written on broader background to the events of 2008 (Gamble, 2009; Krugman, 2008; Shiller, 2008;

Stein, 2011), rather less has been said about why some organizations got into difficulty rather than others, and even less about the role of inter-organizational relations. In this context, the idea of twin organizations provides a new contribution. In relation to the psychoanalytic literature, this paper is innovative because it draws on the well-established theme of sibling and twin rivalry (Burlingham, 1949; 1963; Mitchell, 2003; Sherwin-White, 2007) and applies it at the organizational level, proposing the idea of ‘twin organizations’ as a new unit of analysis. Further, by examining inter-organizational relations, this paper also adds to the broad approach known as systems psychodynamics (Gould *et. al.*, 2001).

As well as contributing to various areas of thought, this paper is also particularly timely: in the relatively short time since the credit crisis, we have already witnessed a series of further debacles in global financial markets. These include major Libor and Forex scandals; the exposure of vast international money laundering activities; catastrophic rogue trader losses at a number of major banks; emerging concerns about high-frequency trading; and the eurozone crisis referred to above. Vast sums of money have been squandered, tax payers and stock holders short-changed, and economies put at risk. It is precisely for this reason that governments, regulators, supervisors, consultants, leaders, managers and board members alike – all of whom bear some responsibility for the management of risk – should take seriously the implications of this and other studies. If we are unable to understand and address these matters, we risk repeating the mistakes of history.

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