The current issue and full text archive of this journal is available at
www.emeraldinsight.com/1751-1348.htm

The 1920 Farrow's Bank failure: a case of managerial hubris?

Matthew Hollow
Department of History, Durham University, Durham, UK

Abstract

Purpose – The aim of this paper is to evaluate the extent to which hubristic behaviour on the part of Thomas Farrow contributed to the downfall of Farrow's Bank in 1920.

Design/methodology/approach – The article traces the way in which Thomas Farrow's behaviour changed over the course of his managerial career using primary sources obtained from various British archives, including: court records, witness statements, auditors' reports, newspapers, journals, and personal letters. The article then evaluates Farrow's actions in relation to the criteria outlined in Petit and Bollaert's "Framework for diagnosing CEO hubris" so as to assess how far he can be said to have become afflicted by managerial hubris.

Findings – All the collected evidence points to the conclusion that Thomas Farrow had, by the time of the Bank's collapse in 1920, become afflicted by managerial hubris. This was reflected most clearly in the fact that he increasingly came to view himself as being somehow above and beyond the laws of the wider community. As a result, he felt little compunction about fraudulently writing-up the Bank's assets so as to cover the huge losses that his reckless investments had produced.

Practical implications – The Farrow's Bank episode confirms that the probability of management hubris materialising is enhanced when external control mechanisms are either lacking or inefficiently applied. On top of this, the amateurish organizational set-up of the Bank also suggests that the likelihood of hubris syndrome developing is enhanced when organizations themselves grant too much discretion to their leaders.

Originality/value – The paper breaks new ground by applying the latest management and psychology theories on the subject of leadership hubris to the field of financial management. Its value lies in the fact that it provides scholars and practitioners with an in-depth insight into how hubris syndrome can develop in organizational settings.

Keywords United Kingdom, Corporate governance, Fraud, Business failures, Hubris, Moral responsibilty

Paper type Research paper

Introduction

Since being re-introduced back into academic debate by Ian Kershaw in 1998 with the publication of part one of his two-part biography of Hitler (Kershaw, 1998), the concept of leadership hubris – or "hubris syndrome", as it is sometimes known – has enjoyed something of a resurgence amongst both historians and management academics. Used to describe the process by which those in positions of great power become so overwhelmingly self-confident that they start to lose contact with reality (often with disastrous consequences), it has been applied to everything from the over-evaluation of companies by CEOs in corporate mergers (Hiller and Hambrick, 2005) to the arrogance displayed by diplomats during international peace-building missions (Owen, 2006; Richmond and Franks, 2007). More recently, a growing body of literature has built-up looking at the extent to which the current post-2007 financial crises was brought about by the hubristic behaviour of bankers and technocratic elites in the financial sector (Engelen *et al.*, 2012; Petit and Bollaert, 2012). This paper contributes to these debates

Journal of Management History
Vol. 20 No. 2, 2014
pp. 164-178
© Emerald Group Publishing Limited
1751-1348
DOI 10.1108/JMH-11-2012-0071

by providing an in-depth analysis of a past UK banking failure – the 1920 Farrow's Bank failure – with a particular focus on the extent to which hubristic behaviour on the part of the Bank's manager contributed to its downfall.

Although the literature on past bank failures and financial panics in Britain has increased enormously in the wake of the 2007 financial crises (Cassis, 2011; Reinhart and Rogoff, 2009), there has up until now been virtually nothing written about the origins and growth of Farrow's Bank nor any real attempt to analyse the factors involved in its failure in 1920. Such neglect is all the more remarkable given the fact that the Farrow's Bank failure came at a time when the British banking sector had, thanks chiefly to increased levels of professionalisation and regulation, largely divested itself from the sort of amateurish mismanagement that had been such a feature of the Victorian era (Michie, 2003; Robb, 2002). This article begins to address some of these issues, looking both at the growth of the Bank and the factors involved in its failure. Evidence is taken from a range of sources, including personal letters, minute books, personal testimonies and company reports. Particular attention is given to looking at the behaviour of the Bank's manager – Thomas Farrow – in both the day-to-day running of the Bank and in the aftermath of its failure, with the chief concern being to diagnose the extent to which he can be said to have been afflicted by hubris syndrome.

The article unfolds in stages. In the first section, the current body of literature and research on leadership hubris is analysed in more detail and a working model of the condition is outlined, complete with a list of standard symptoms. This working model forms the checklist against which the behaviour and actions of the Thomas Farrow's are analysed and assessed. The article then moves on to look at Farrow's early career as a campaigner against usury and considers how this work inspired him to subsequently establish Farrow's Bank. Also analysed are the grandiose methods and language used by Farrow to present himself and his Bank to the world. The next section then focuses on Farrow's (mis)management of the Bank, outlining how he covered-up the Bank's huge trading losses by fraudulently over-evaluating assets and drawing-up false balance sheets as well as looking at how it was that a fraud of such scale was able to go undetected for so long. Indeed, in this section the concept of managerial hubris is particularly useful as it helps to make sense of how someone who, publicly at least, was so critical of unscrupulous banking behaviour could himself orchestrate a fraud of such magnitude. Finally, in the last section the focus switches to the trial of Farrow and the Bank's management. Making use of both the evidence presented in court and the testimonies of those involved in the trial, it shows how, even after his fraudulent activities had been uncovered, Farrow remained unapologetic for his actions and refused to accept that he had done anything wrong. Moreover, it also shows how Farrow continued to believe that his past sacrifices and personal successes not only entitled him to some sort of special dispensation from the law, but also uniquely qualified him as the man most able to lead the Bank out of trouble.

Hubris syndrome

Originating in ancient Greece, the term "hubris" was first used to describe those who displayed "wanton insolence" or "arrogance" resulting from excessive pride or self-confidence (Bergman, 1986). Typically used to indicate a loss of contact with reality, the descent into hubris was often thought to invite disaster (usually in the form

of the Goddess Nemesis) and was considered one of the greatest crimes in ancient Greek society (Fisher, 2003). More recently, the term has been used to analyse and make sense of the actions of contemporary heads of government, notably by Ian Kershaw (1998), Peter Beinart (2010) and, in a much more physiological manner, by David Owen (2012). In this context, the term has been used to describe how certain leaders, when put in positions of immense power, seem to become irrationally self-confident in their own abilities, increasingly reluctant to listen to the advice of others and progressively more impulsive in their actions (see the following list). According to Owen (2008), such behavioural traits have been displayed by a number of dictators and democratically-elected heads of state over the past 100 years[1], often with harmful results for the wider population. Owen and Davies's (2009) criteria for diagnosing hubris syndrome are as follows:

(1) A narcissistic propensity to see their world primarily as an arena in which to exercise power and seek glory.
(2) A predisposition to take actions which seem likely to cast the individual in a good light.
(3) A disproportionate concern with image and presentation.
(4) A messianic manner of talking about current activities and a tendency to exaltation.
(5) An identification with the nation, or organization, to the extent that the individual regards his/her outlook and interests as identical.
(6) A tendency to speak in the third person or use the royal "we".
(7) Excessive confidence in the individual's own judgement and contempt for the advice or criticism of others.
(8) Exaggerated self-belief, bordering on a sense of omnipotence, in what they personally can achieve.
(9) A belief that rather than being accountable to the mundane court of colleagues or public opinion, the court to which they answer is: History or God.
(10) An unshakeable belief that in that court they will be vindicated.
(11) Loss of contact with reality; often associated with progressive isolation.
(12) Restlessness, recklessness and impulsiveness.
(13) A tendency to allow their "broad vision", about the moral rectitude of a proposed course, to obviate the need to consider practicality, cost or outcomes.
(14) Hubristic incompetence, where things go wrong because too much self-confidence has led the leader not to worry about the nuts-and-bolts of policy.

Similarly, the term "hubris" has also been used in recent years by a growing number of business and management academics. The pioneer in this respect was Richard Roll (1986), who first used the term to describe how hubris-infected acquiring CEOs were, as a result of their tendency to over-valuate assets, often responsible for the losses incurred by shareholders during mergers. In a similar vein, Haywood and Hambrick (1997) have argued that the post-acquisition performance of firms purchased by hubristically-inclined CEOs tends to be worse than that of the firms purchased by

non-hubristically-inclined CEOs. More recently, Hayward *et al.* (2006) have developed a "hubris theory of entrepreneurship" to explain why, despite the high incidence of new venture failures, so many entrepreneurs continue to want to establish new business ventures. Likewise, Li and Tang (2010) have shown that hubristic tendencies on the part of CEOs are likely to lead to higher levels of risk-taking amongst manufacturing firms.

Yet, despite this increase in interest, the literature on leadership hubris has remained somewhat splintered. One of the main problems is that often the concept of hubris is poorly defined. This is especially true for much of the literature on hubris in the business and finance sectors. In particular, there is often a tendency to switch between different terms and a general lack of clarity about what exactly different academics mean when they refer to leadership hubris (Maccoby, 2000). For instance, in many studies on management decisions in the corporate finance sector there has been a failure to differentiate between the concept of "overconfidence" – defined in the social and cognitive psychology literature as "an overestimation of one's own abilities and outcomes relating to one's own personal situation" (Langer, 1975) – and that of "hubris". Likewise, there has been relatively little attempt in the management and corporate finance literature to differentiate leadership hubris from what psychologists have termed "narcissistic personality disorder" (NPD) – defined in the 2000 *Diagnostic and Statistical Manual of Mental Disorders* as "a pervasive pattern of grandiosity (in fantasy or behaviour), need for admiration, and lack of empathy" (Bollaert and Petit, 2010)[2].

In a bid to overcome these issues, Petit and Bollaert (2012) have recently constructed a generic model that provides a framework for diagnosing levels of hubris amongst CEOs and business leaders (see Table I). This is the model that will be adopted in this article and used as the checklist against which Thomas Farrow's actions will be assessed. The model itself is heavily based on the one drawn-up by Owen and Davies

Context	Scope	Cognitive aspects	Behavioural aspects
Power	Relation with the self	Has a grandiose sense of self	Grandiose communication style (use of the royal "we"; use of superlatives; expression of overarching ambition)
		Overestimates his/her abilities, power and likelihood of success	Unjustifiably grandiose projects Poor decisions
		Considers him/herself uniquely and eternally qualified to run the company	Entrenchment strategies (accumulation of power; failure to accept removal from position; tardy resignation when circumstances would seem to dictate it)
	Relation with others	Considers him/herself above the community of humans	Management by fear Violence or intimidation Refusal of advice or criticism
	Relation with the World	Considers him/herself above the law or the gods	Fraud Manipulation of rules and laws Contempt towards authorities

Source: Petit and Bollaert (2012)

Table I. Petit and Bollaert's Framework for Diagnosing CEO Hubris

in 2009 and identifies many of the same symptoms and behavioural traits. Indeed, like Owen and Davies's (2009) model, Bollaert and Petit's framework is based on the premise that hubris syndrome is an acquired condition, in that it can only be triggered by accession to a position of power. In this way, the condition of hubris syndrome is clearly differentiated from other individual pathological personality disorders such as NPD or APD which are the result of personal character traits. Where Bollaert and Petit's framework differs from Owen and Davies's, however, is in its separation of attitudes and behaviours (both of which are important factors in cases of leadership hubris). On top of this, Bollaert and Petit's framework has also been explicitly produced in order to diagnose hubris syndrome in the business environment, whereas Owen and Davies's is very much more centred on the political sphere. As such, it provides a concise and workable model against which to diagnose the extent to which individual business leaders can be identified as suffering from hubris syndrome.

Thomas Farrow and the emergence of Farrow's bank

By the standards of the time, Thomas Farrow had a fairly comfortable and unremarkable middle-class upbringing. Born just outside of Norwich in 1862, he moved to London in 1881 to take up the role of confidential secretary to the Rt. Hon W.H. Smith, Leader of the House of Commons (Ogan, 1937). This was a role that he held until 1891 when, following Smith's death, he became political secretary to Mr Robert Yerburgh, the President of the Agricultural Banks Association and an MP for Chester (*The Times*, 1921a). Whilst it would be overstating things to try and suggest that, even at this stage of his life, Thomas Farrow had some sort of innate predisposition to viewing himself as being somehow above the laws of the land, it is clear that he was not afraid to voice his opinions. Indeed, despite lacking any formal training in economics or finance, Farrow rapidly established himself as one of the more outspoken critics of the British banking sector in and around Whitehall. Of particular concern to him was the problem of usury and, what he perceived to be, the unwillingness of the banking sector to provide for those of limited means. In 1895, he published his first book – *The Moneylender Unmasked* – and he was later asked to give evidence before a government select committee on the subject of usury (Russell, 1897)[3].

Yet, despite these relative successes, Farrow remained dissatisfied with the levels of financial protection offered to those of small means and in 1901 he formed the Mutual Credit and Deposit Bank in Croydon. This small-scale experiment proved successful and in 1904 he founded Farrow's Bank (PRO, DPP 1/55). Designed specifically for small savers, Farrow's Bank differentiated itself from its competitors on the market by offering 1.5 per cent interest (this later rose to 2.5 per cent) on current accounts which maintained a minimum balance of £10 for at least six months (LRO, Misc. 1015). Generous repayment terms were also offered to those looking to borrow small amounts of money, with Farrow claiming, in somewhat extravagant terms, that his new institution represented "a death blow to usury" (PRO, DPP 1/55). Whether or not this was the case, Farrow's Bank certainly proved popular and on 16 May 1907 it was officially registered as a listed company with Farrow fulfilling the role of Chairman and Managing Director.

Both in terms of its structure and the way in which it marketed itself, Farrow's Bank was very much following in the tradition of organisations such as the Birkbeck Bank

and the Charing Cross Bank in that it specifically sought to fill a gap in the market by catering to those who found it difficult to obtain reasonable credit facilities from the large joint-stock clearing banks but still wanted an alternative to the overtly-philanthropic, state-backed Post Office Savings Banks (Johnson, 1985). Deposit accounts with a guaranteed interest rate of at least 3 per cent could be opened from as little as 1 *s.* upwards and facilities were available for the buying and selling of stocks and shares. On top of this, Farrow was also highly innovative in terms of how he marketed his Bank. Specially produced Hebrew adverts were produced for circulation in Jewish periodicals, whilst from 1907 onwards an in-house journal – the *Farrow's Bank Gazette* (hereafter *FBG*) – was also produced and circulated to all customers (Bankers' Magazine, 1914, July, p. 88). Another innovative tactic introduced by Farrow was the establishment of a specially designated "Bank for Women" at 263 Knightsbridge Road, London, which was "managed by women for women" and featured "special banking facilities for lady clients" (*FBG, 1915*, July , p. 82).

On the surface, at least, Farrow's Bank was an overwhelming success. By 1913, the Bank's nominal capital had been increased to £1,000,000 and shareholders were receiving regular dividends of upwards of 6 per cent (*FBG, 1913*, August, pp. 115-7). Geographically too the Bank rapidly extended its reach and by 1915 it had a network of 72 branches, including offices in Scotland, Wales and Ireland (*FBG, 1915*, July, p. 82). Similarly, Farrow was keen to point to the fact that, according to the figures published in official banking returns, Farrow's Bank was ranked at the top of the table for all London and Provincial Banks with respect to the proportion of capital and reserves to liabilities (claimed to be 32 per cent in 1914). Even the outbreak and subsequent turmoil of the First World War failed to disrupt the Bank's growth, with the amount of money deposited increasing from £166,304 in 1908 to £2,033,419 by 1917 (*FBG, 1915*, July, p. 66). Indeed, right up to 1920 the Bank's Annual Reports continued to present hugely impressive figures, with the recorded assets swelling to £4,657,786 by September 1920 (see Table II).

Significantly, as the size and prominence of the Bank increased so too did Farrow's self-confidence and ambition. Envisaging himself as being more than just a mere banker, he began to devote more and more time to airing his views on matters of national policy and industrial legislation, using the pages of his Bank's in-house publications to sketch-out his ideas for how the government could stimulate job growth and make the British economy more competitive (*FBG, 1916*, August, pp. 99-102). An even more comprehensive political treatise followed in 1916 with the publication of *The Coming Trade War*, in which he outlined his views on how Britain could retain her dominant position in the world's markets. Publications such as these were indicative not only of the increasing scope of Farrow's ambition, but also of the disproportionate concern that he devoted to questions of image and presentation[4]. Indeed, Farrow even hoped that, through such publicity, he might be able to foster a dynamic sense of community amongst the Bank's shareholders and customers, stating at the 1916 Annual meeting how he hoped to develop a "spirit of camaraderie amongst shareholders and customers alike … wield[ing] into one common fellowship a vast body of men and women known as "Farrovians"" ((*The*) *Economist, 1916*, 5 August, p. 244).

The language used by Farrow in these sorts of publications also became more and more grandiose as the Bank continued to expand, with the organisation increasingly

Liabilities	£	Assets	£
Capital paid up	361,423	Cash in hand at bankers	207,793
Reserve fund (invested as per contra)	138,500	Reserve fund invested in 5 per cent; War Loan; National War Bonds; $5\frac{3}{4}$ per cent; Exchequer Bonds; Consols; and India $3\frac{1}{2}$ per cent stock	138,500
Current and other accounts	1,458,317	Investments: War Loan; Exchequer Bonds; Consols; Government guaranteed stocks; British, foreign and Colonial railway debenture and preference stocks and other Stock Exchange securities; freehold properties and other properties, less depreciation	1,665,172
Deposit accounts	2,678,726	Advances and loans to customers, including loans to take up Government War Issues, bills discounted and other accounts, after deducting provision for doubtful debts	2,473,012
Net profit, including balances from last account, £53,450; reserve fund, interim dividend, and £32,630	20,820	Bank premises and fittings, less depreciation	73,309
Total:	4,657,786	Total:	4,657,786

Table II. Farrow's Bank published balance sheet, 30 June 1920

presented less as a business and more as some sort of living, organic entity. Indeed, as Farrow put it in his speech to the shareholders gathered at the sixteenth Annual General Meeting: "you have here a Bank with a soul – not a mere money-making machine grinding out currency notes for the benefit of a hungry horde of speculative individuals wanting to get rich quickly" (*FBG, 1920*, October, p. 38). Farrow seemingly also began to identify himself more and more with the Bank and its customers (as the "Farrovian" tag so aptly demonstrates), seeing them as being somehow symbiotically attached to him and treating their interests and outlook as being synonymous with his own. Likewise, he also began to talk about the Bank's future in increasingly messianic terms, painting its potential development less as a commercial matter and more as some sort of divine mission – a "mission" which, he claimed, was the Bank's "undoubted heritage and destiny" (*FBG, 1920*, October, p. 38). Moreover, he also became increasingly prone to using the royal "we" when referring to the Bank's activities and progress – another frequently identified symptom amongst those who are overcome by hubris syndrome (Owen, 2008).

Fraud and failure

Both in terms of its amateurishness and its sheer scale, the Farrow's Bank scandal was very much evocative of the sorts of frauds and deceptions that had been such a common feature of the mid-nineteenth century British banking system (Robb, 2002; Taylor, 2007). The fraud itself was only revealed in May 1920 when an approach to buy a controlling interest in the company was made by Norton, Read & Co., a New

York-based investment firm. As William Albert Read – the partner charged with negotiating the deal – later explained, he had been attracted to the Bank based on the strength of its annual published reports and its extensive branch network (PRO DPP 55/1). Negotiations took place between Farrow and Read throughout the summer of 1920 and in early August a provisional deal for Norton, Read & Co. to purchase 300,000 unissued shares at a net cost of 8/- per-share was agreed. Before assuming the role of Managing Director, however, Read insisted on bringing in two accountants – Arthur Horace Richie and Henry Morgan – to look over the accounts of his new acquisition. Despite Farrow's best attempts to prevent them in their work, the two accountants were able to garner more than enough information to expose the fact that the figures presented in the Bank's annual balance sheets were hugely unreflective of the Bank's true financial position. Indeed, even after taking into account the money that had already been deposited in the Bank by Norton, Read & Co., Morgan still estimated that there was a deficiency in the Bank's accounts of approximately £2,685,757 (see Table III).

Whilst these figures were clearly alarming, perhaps the most shocking thing to emerge from the accountants' initial investigation was the extent to which Farrow and his staff had, over so many years, shown such utter disregard towards the norms and conventions of standard bookkeeping practice. The most striking example in this respect was the revelation that, from 1908 up until 1917, Farrow had left the job of auditing the balance sheets solely in the hands of the Bank's own Chief Accountant, George Hart (PRO, DPP 1/55). This arrangement not only made a mockery of the notion of an "independent audit", it also meant that throughout this period the account books of Farrow's Bank were never subjected to any form of external inspection[5]. To further compound matters, it also emerged that, following George Hart's retirement in 1917, the responsibility for both drawing-up and auditing the Bank's account books had been left to Frederick Hart (George Hart's son), despite the fact that he was unqualified and had had no training other than that provided by his father (PRO, DPP 1/55).

Unsurprisingly, given this unprofessional setup, the manner in which the account books of Farrow's Bank were kept was decidedly substandard. In total, the Bank employed four full-time clerks to check the monthly trial balances sent up by the

Estimated deficiency	£	Credit balance not representing liabilities	£
Appreciation added to cost	1,875,098	Reserve fund	138,500
Estimated depreciation of investments and other assets	709,370	Investment reserve	281,914
Loans and debts estimated bad wholly or in part	381,533	Bad and doubtful debt reserve	427,165
Loss on foreign bank balance and exchanges	96,784	Foreign exchange reserve	41,485
Amount wrongly shown as due by Mr Read and others	500,000	Insurance and repairs sinking funds	4,715
Expenditure and expenses not written off but treated as assets	40,736	Share premium account	3,165
		Profit and loss account	20,820
Total:	3,603,521		917,764
Net deficiency:			2,685,757

Table III. Henry Morgan's initial estimate of the deficiency in the accounts of Farrow's Bank, 20 November 1920

different departments, with notes made in investment ledgers as to the buying and selling of stocks and shares, as well as dividends received (PRO, DPP 1/55). Alongside these investment ledgers, however, were a number of account books marked "private ledger", each with its own lock and key. According to the subsequent testimonies of the Bank's former employees, no other employees of the Bank were allowed access to these account books (PRO, DPP 1/55). Indeed, the only people with keys to these ledgers were George Hart and, then later, Frederick Hart. Moreover, it was also observed that although the Bank's clerks contributed to the writing up of the provisional investment ledgers, they never had any involvement in the drawing-up of the annual balance sheets – a task which was carried out solely by George Hart, and then later Frederick Hart, either in their private office or in the seclusion of their family home (PRO, DPP 1/55).

One of the main reasons why this unprofessional and morally hazardous setup had been allowed to remain in place for so long was because, in terms of its legal status, Farrow's Bank was actually registered as a "credit bank" under the Friendly Societies Act of 1904, rather than as a conventional joint-stock bank under the 1900 Companies Act. The significance of this was that it meant that the bookkeeping requirements placed on it were far less strict than those imposed on other joint-stock banks at the time (Anderson *et al.*, 1996)[6]. Likewise, it also meant Farrow and his fellow Directors were, legaly, far less accountable to those who held shares in their Bank than their competitors and did not have to have their accounts checked-over by an external auditor (Collins and Baker, 2003; Nobes and Parker, 1979).

Internally too, there were also a number of supervisory deficiencies in the organisational setup of Farrow's Bank. Indeed, judging from the testimonies of those employed by the Bank in these years, it appears as if Farrow was essentially granted the freedom to run the Bank as he saw fit. The main culprit in this respect was undoubtedly William Walter Crotch, the Bank's Assistant Managing Director, who very much filled the role of Farrow's loyal and unquestioning understudy. Well-read and artistic, Crotch was, by his own admission, woefully inexperienced when it came to financial matters and was generally far more interested in literature than banking – as his string of publications on Charles Dickens during this period so clearly illustrate[7]. As a result, he was wholly ineffective in terms of overseeing the business of the Bank, freely admitting during the trial to never having looked over the auditor's reports or inquired as to what the earnings or spendings of the Bank were (PRO, DPP 1/55). Similarly, it is clear that the Bank's Board of Directors were just as negligent in terms of their supervisory duties. Indeed, judging from the surviving evidence, it appears as if personal intimacy rather than professional expertise was the overriding factor in Board appointments, with figures such as F.C. Janvrin – a stockbroker who, by his own admission, was a "novice" when it came to matters of banking (*FBG, 1918*, August, p. 5) – seemingly elected based on the fact that they enjoyed a close relationship with Farrow[8]. Likewise, according to one of the Bank's former Directors, at no point during the Bank's existence had matters relating to the Bank's assets ever been discussed at a board meeting (PRO, DPP 1/55).

From the perspective of this article, the most significant thing about these many regulatory and organisational failings was that they enabled a situation to develop within which Farrow was free to pursue his own grandiose visions for the Bank. Indeed, according to one of the Bank's former employees, Farrow tended to

communicate very little with the rest of the Bank's staff and would typically just lock himself away in the Bank's boardroom whenever he came into work (PRO, DPP 1/55). This isolation from the rest of the Bank's staff also seems to have been accompanied by a progressive loss of interest in the practical, day-to-day operations of the Bank. For instance, according to Hart, Farrow never actually asked to see the balance sheets drawn-up for the Bank's monthly income and expenditure (PRO, DPP 1/55)[9]. This apparent lack of concern with the Bank's finances reveals much about the extent to which Farrow lost contact with the day-to-day reality of bank management. It also emphasises just how far the Bank's Directors and senior staff failed in their supervisory responsibilities. Indeed, had more efficient checks been in place, it is highly unlikely that Farrow would have been able to have become so detached or have overseen a fraud of such magnitude.

Trial and conviction

In terms of cooperating with the subsequent criminal investigation, Farrow was by some distance the least obliging of the suspects taken into custody by the police on 20 December 1920. Indeed, whereas as both Crotch and Hart Jnr. were utterly compliant during their actual arrests, Farrow – who had decamped to a hotel in St Leonards-on-Sea, Hastings – informed the Detective sent to arrest him that he was terribly ill and refused to accompany the police to London (PRO, DPP 1/55). Likewise, after his commitment for trial at the Central Criminal Court on 22 December 1920 and subsequent remandment in Brixton Prison, Farrow continued to complain about the degrading treatment he had received from the police. He also protested that his bail – set at £14,000, with additional sureties of £14,000 – was too high, objected to the fact that he was not able to look over any of his private papers whilst in prison, and complained that he was being underfed (PRO, DPP 1/55). Moreover, throughout his time in police custody, Farrow seemed completely unwilling to either recognise the charges being brought against him or accept the fact that he had done anything wrong. Indeed, in one letter to the Director of Public Prosecutions he (delusionally) tried to claim that, had the police not intervened, he would have been able to have successfully negotiated a deal with the government to keep Farrow's Bank afloat (PRO, DPP 1/55).

Protestations of this sort reveal not only the extent to which Farrow refused to come to terms with the consequences of his actions, but also the degree to which he remained convinced that he alone was somehow above and beyond the conventional jurisdiction of the state. This dismissive attitude towards the law became especially apparent during the subsequent trial, which began on 6 June 1921 at the Old Bailey. The trial itself was very much a one-sided affair, with the prosecution – led by Sir Richard Muir – able to call upon an extensive list of witnesses willing to testify against Farrow. Yet, even when confronted with such damming evidence, Farrow still refused to accept that he had done anything wrong. For instance, when questioned about the misleading figures published in the Bank's promotional material, Farrow simply claimed that "there is much in a balance sheet which is not informative, and, which, if you like to take a very severe view, is calculated to mislead the public" (*The Times*, 1921b). Likewise, he also suggested that what he had done was no worse than what any of the other major banks did on a regular basis and refused to accept that the Bank's huge trading losses were of any concern, pointing out that all new businesses tended to struggle in their early days (PRO, DPP 1/55).

Indeed, throughout the trial Farrow actually sought to present himself as the real victim in the whole affair, claiming that all he had ever wanted to do was protect the poorer classes from unscrupulous moneylenders and encourage thrift amongst those of small means (*The Times*, 1921c). Moreover, he maintained that throughout his time as Director of Farrow's Bank he had only ever been concerned with protecting the interests of the Bank's shareholders, pointing out to the jury that he had not had a holiday in seventeen years[10]. Likewise, he also refused to accept that the deal that he had struck with Read had been in any way underhand. Indeed, according to Farrow, had he and Read been given the time, they would have been able to turn the Bank around and would have "defied the banking world together" (PRO, DPP 1/55). This almost farcically defiant attitude must have appeared even more delusional given the overtly contrite and apologetic stances adopted by Farrow's co-defendants, with Crotch, in particular, stressing time and again just how sorry he was for having been so "neglectful and careless" in his duties (*The Times*, 1921d).

Further evidence for the extent of Farrow's self-delusion can be seen from the fact that, even after he had been found guilty of conspiracy to defraud and sentenced to four years of penal servitude, he still refused to accept that he was guilty of any crime. In an emotional closing speech to the courtroom, he declared that he had never knowingly or willingly done anything he thought was wrong and stated that "the failure of the bank had been brought about through no fault of his" (*The Times*, 1921e). He also continued to argue that had he been given another "seven to ten years" he would have been able to make the Bank profitable (PRO, DPP 1/55). These continued protestations of innocence in the face of such overwhelming evidence to the contrary can be seen as proof of just how far removed from reality Farrow had become by this point. Indeed, throughout the trial Farrow seemed to act as if his past personal successes and sacrifices somehow entitled him to special dispensation, reflecting the extent to which he had come to view himself and his work as being somehow above and beyond the jurisdiction of the state.

Conclusion

If one takes Petit and Bollaert's framework as the barometer against which to assess levels of hubristic behaviour, then it is clear that, during his time as Director of Farrow's Bank, Thomas Farrow was very much afflicted by hubris syndrome. Amongst the more obvious cognitive symptoms which he displayed in this respect were: an overwhelming concern with his own self-image; a pronounced tendency view the world in heavily moralistic and grandiose terms; a total disregard for rules and regulations; and an increasing detachment from reality. In practical terms, this overtly hubristic outlook had a profound impact upon Farrow's decision making abilities. It also meant that he increasingly treated his banking work less as a business venture and more as a personal moral crusade. As a result, he proceeded to make a series of increasingly poor business decisions, overlooking the extent to which his profit margins were falling in favour of providing ever higher returns and promoting continued expansion.

Perhaps the most obvious indication of the extent of Farrow's hubris, however, can be seen from the fact that, rather than face-up to the reality of his Bank's financial position, he instead decided to cover his losses through the drawing-up and publishing of false balance sheets. Such total disregard for rules and regulations marks out

Farrow's behaviour as distinctly hubristic, rather than just merely negligent or stubborn. Moreover, the fact that he still refused to publicly recognise that he had done anything improper even after he had been charged and convicted also demonstrates the lengths he was prepared to go to in order to preserve his self-image. Likewise, it can also be taken as evidence for the fact that he inherently viewed himself as being somehow above and beyond the laws of the wider community.

Finally, in terms of what this investigation into the, 1920 Farrow's Bank failure can tell us about how to go about mitigating against the worst effects of managerial hubris in the future, two key points emerge. First, and perhaps most obviously, the Farrow's Bank failure clearly seems to indicate that the probability of management hubris materialising is enhanced when external control mechanisms are either lacking or inefficiently applied (Kroll *et al.*, 2000; Porta *et al.*, 2000). In this particular case, a regulatory vacuum was able to develop because, unlike almost all other joint-stock banks of the period, Farrow's Bank was registered under the Friendly Societies Act of 1904 and was, thus, subject to far less strict auditing regulations than its competitors. As a result, Farrow was able to keep the scale of his fraudulent bookkeeping hidden for far longer than would have been the case at any other joint-stock bank. Second, the Farrow's Bank example also indicates that the likelihood of hubris syndrome developing is enhanced when organisations themselves grant too much discretion to their leaders (especially if those leaders already have certain narcissistic and ego-centric tendencies) (Li and Tang, 2010). In this particular case, the most culpable figures in this sense were the Bank's Board of Directors and its senior management (notably, Crotch and Hart), who all showed a highly irresponsible and neglectful attitude towards the day-to-day running of the Bank. Indeed, had either the staff or the Directors of Farrow's Bank been more vigilant in their regulatory duties it is highly unlikely that Farrow would have been able to have acted as recklessly as he did (Finkelstein and D'Aveni, 1994). From an organisational perspective, therefore, the example of the Farrow's Bank failure clearly supports the notion that, in order to mitigate against the worst potential effects of managerial hubris, it is desirable for businesses to ensure that their leaders are subject to some sort of effective monitoring.

Notes

1. Owen identifies Lloyd George, Margaret Thatcher, George W. Bush and Tony Blair as the four most obvious examples (Owen, 2008).
2. Other related personality disorders include: Anti-Social Personality Disorder (APD) and Histrionic Personality Disorder (HPD).
3. The findings of this committee were subsequently adopted in the 1900 Moneylenders Act.
4. According to the Bank's publisher, the Bank spent upwards of £9,000 per-annum on advertising in the London and provincial daily newspapers and in religious periodicals (PRO, DPP 1/55).
5. Frederick Hart did actually try to suggest to Morgan that this method of auditing was more reliable than using external auditors as "a man keeping the books was better able to audit and verify their correctness than an outside auditor" (PRO, DPP 1/55).
6. The 1900 Act not only stipulated that the auditor could not be an employee of the company, but also stated that the appointed auditor had to be granted access to all recorded accounts and balance sheets.

7. His list of publications on Dickens include: Charles Dickens, Social Reformer: The Teachings of England's Great Novelist (Crotch, 1913); The Soul of Dickens (Crotch, 1916a); The Pageant Of Dickens (Crotch, 1916b); The Secret of Dickens (Crotch, 1919); The Touchstone of Dickens (Crotch, 1920). He was also instrumental in setting-up and running the Dickens Fellowship.
8. Farrow also unsuccessfully attempted to have his brother, George Farrow, appointed to the Board of Directors, despite the fact that he had no experience in banking or financial matters (*FBG, August 1918*, p. 4).
9. This lack of interest in the day-to-day running of the Bank can be seen by the fact that the Bank's salaries and wages were vastly in excess of its regular income (amounting to five times the Bank's total earnings in 1914 alone) (PRO, DPP 1/55).
10. This in itself was a violation of one the simplest early control measures and was something that should have been noted and acted upon by the Bank's Board of Directors.

References

Anderson, M., Edwards, J.R. and Matthews, D. (1996), "A study of the quoted company audit market in 1886", *Auditing, Business and Financial History*, Vol. 6 No. 3, pp. 363-387.

Bankers' Magazine (1914), July.

Beinart, P. (2010), *The Icarus Syndrome: A History of American Hubris*, Harper, New York, NY.

Bergman, A.B. (1986), "Academic Hubris", *Paediatrics*, Vol. 77, pp. 251-256.

Bollaert, H. and Petit, V. (2010), "Beyond the dark side of executive psychology: current research and new directions", *European Management Journal*, Vol. 28 No. 3, pp. 362-376.

Cassis, Y. (2011), *Crises and Opportunities: The Shaping of Modern Finance*, Oxford University Press, Oxford.

Collins, M. and Baker, M. (2003), *Commercial Banks and Industrial Finance in England and Wales, 1860-1913*, Oxford University Press, Oxford.

Crotch, W.W. (1913), *Charles Dickens, Social Reformer: The Teachings of England's Great Novelist*, Chapman & Hall, London.

Crotch, W.W. (1916a), *The Soul of Dickens*, Chapman & Hall, London.

Crotch, W.W. (1916b), *The Pageant of Dickens*, Chapman & Hall, London.

Crotch, W.W. (1919), *The Secret of Dickens*, Chapman & Hall, London.

Crotch, W.W. (1920), *The Touchstone of Dickens*, Chapman & Hall, London.

(The) Economist (1916), 5 August.

Engelen, E., Erturk, I., Froud, J., Johal, S., Leaver, A., Moran, M. and Williams, K. (2012), "Misrule of experts? The financial crisis as elite debacle", *Economy and Society*, Vol. 41 No. 3, pp. 360-382.

Farrow's Bank Gazette (FBG) (August 1913–October, 1920), held at LSE Library, London.

Finkelstein, S. and D'Aveni, R.A. (1994), "CEO duality as a double-edged sword: how boards of directors balance entrenchment avoidance and unity of command", *The Academy of Management Journal*, Vol. 37 No. 5, pp. 1079-1108.

Fisher, N. (2003), "The law of hubris in Athens", in Cartledge, P., Millett, P. and Todd, S. (Eds), *Nomos: Essays in Athenian Law, Politics and Society*, Cambridge University Press, Cambridge, pp. 123-138.

Hayward, M.L.A. and Hambrick, D.C. (1997), "Explaining the premiums paid for large acquisitions: evidence of CEO hubris", *Administrative Science Quarterly*, Vol. 42 No. 2, pp. 103-127.

Hayward, M.L.A., Shepherd, D.A. and Griffin, D. (2006), "A hubris theory of entrepreneurship", *Management Science*, Vol. 52 No. 2, pp. 160-172.

Hiller, N.J. and Hambrick, D.C. (2005), "Conceptualizing executive hubris: the role of (hyper-)core self-evaluations in strategic decision-making", *Strategic Management Journal*, Vol. 26 No. 2, pp. 297-319.

Johnson, P. (1985), *Saving and Spending: The Working-Class Economy in Britain, 1870–1939*, Clarendon Press, Oxford.

Kershaw, I. (1998), *Hitler 1889-1936: Hubris*, Allen Lane, London.

Kroll, M.J., Toombs, L.A. and Wright, P. (2000), "Napoleon's tragic march home from Moscow: lessons in hubris", *Academy Management Executive*, Vol. 14 No. 1, pp. 121-127.

Langer, E. (1975), "The illusion of control", *Journal of Personality and Social Psychology*, Vol. 28 No. 2, pp. 311-328.

Li, J. and Tang, Y. (2010), "CEO hubris and firm risk taking in China: the moderating role of managerial discretion", *Academy of Management Journal*, Vol. 53 No. 1, pp. 45-68.

Maccoby, M. (2000), "Narcissistic leaders: the incredible pros, the inevitable cons", *Harvard Business Review*, Vol. 78 No. 1, pp. 69-77.

Michie, R. (2003), "The City of London and British banking, 1900-1939", in Wrigley, C. (Ed.), *A Companion to Early Twentieth-Century Britain*, Oxford University Press, Oxford, pp. 249-269.

Nobes, C.W. and Parker, R.H. (1979), "The development of company financial reporting in Great Britain, 1844-1977", in Lee, T.A. and Parker, R.H. (Eds), *The Evolution of Corporate Financial Reporting*, Garland, London, pp. 191-209.

Ogan, E.G. (1937), *Fifty Great Disasters and Tragedies that Shocked the World*, Odham's Press, London.

Owen, D. (2006), "Hubris and nemesis in heads of government", *Journal of Social Medicine*, Vol. 99 No. 3, pp. 548-551.

Owen, D. (2008), "Hubris syndrome", *Clinical Medicine*, Vol. 8 No. 4, pp. 428-430.

Owen, D. (2012), *The Hubris Syndrome: Bush, Blair and the Intoxication of Power*, Methuen, London.

Owen, D. and Davies, J. (2009), "Hubris syndrome: an acquired personality disorder? A study of US Presidents and UK Prime Ministers over the last 100 Years", *Brain*, Vol. 132 No. 2, pp. 1396-1406.

Petit, V. and Bollaert, H. (2012), "Flying too close to the sun? Hubris among CEOs and how to prevent it", *Journal of Business Ethics*, Vol. 108 No. 2, pp. 265-283.

Porta, R.L., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (2000), "Investor protection and corporate governance", *Journal of Financial Economics*, Vol. 58 No. 1, pp. 3-27.

Reinhart, C.M. and Rogoff, K.S. (2009), *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, Princeton, NJ.

Richmond, O.P. and Franks, J. (2007), "Liberal Hubris? Virtual Peace in Cambodia", *Security Dialogue*, Vol. 38, pp. 27-48.

Robb, G. (2002), *White-Collar Crime in Modern England: Financial Fraud and Business Morality, 1845-1929*, Cambridge University Press, Cambridge.

Roll, R. (1986), "The hubris hypothesis of corporate takeovers", *The Journal of Business*, Vol. 59, pp. 197-216.

Russell, T.W. (1897), "Report from the Select Committee on Money Lending", together with the *Proceedings of the Committee, Minutes of Evidence, Appendix and Index, House of Commons 364 (XI.405), HMSO, London*.

Taylor, J. (2007), "Company fraud in Victorian Britain: The Royal British Bank Scandal of 1856", *English Historical Review*, Vol. 122 No. 497, pp. 700-724.

(The) Times (1921a), 15 June, p. 19.

(The) Times (1921b), 16 June, p. 7.

(The) Times (1921c), 15 June, p. 19.

(The) Times (1921d), 18 June, p. 6.

(The) Times (1921e), 22 June, p. 7.

Further reading

Farrow, T. (1895), *The Moneylender Unmasked*, Roxburghe Press, London.

LRO (n.d.), *LRO Misc 1015, Account Book (1917-1920)*, Leicestershire Record Office, Leicester.

PRO DPP 1/55 (n.d.), *Public Record Office, Director of Public Prosecutions: Case Papers for Farrow's Bank*, The National Archives, Kew.

About the author

Matthew Hollow is a Research Associate on the "Tipping Points" Project in the Institute of Hazard, Risk and Resilience, Durham University. His work focuses on various aspects of Twentieth-Century British socio-economic history. He holds a BA and an MA from the University of Sheffield and a DPhil from Oxford University. At present he is interested in exploring moments of significant transition and upheaval in the British financial system so as to understand the causes and implications of such changes and to work out how to better deal with their effects in the future. Matthew Hollow can be contacted at: matthew.hollow@durham.ac.uk

To purchase reprints of this article please e-mail: **reprints@emeraldinsight.com**
Or visit our web site for further details: **www.emeraldinsight.com/reprints**

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.