Accenture, 42-43 Active Nonlinear Tests (ANTs), 167 Adaptive walk, 32 Adobe Corporation, 92 Affective paradigm, 84 Agent-based simulation, 40 Agents: in complex systems, 11, 63 cooperation among, 108, 203 functions and, 15 heuristics and, 171 levels of influence, 106-108 in networks/systems, 17, 39, 90 Air Taxis, 55 Airwalk Shoes, 94-95 Akerloff, George, 65 Allais, Maurice, 64 Allais Paradox, 64–65 Allen, Paul, 26 American Superconductor, 59 Amplification(s). See also Social Amplification of Risk Framework (SARF) Airwalk Shoes and, 94-95 crowd behavior/triggers, 90-91 defined, 101 generally, 89-90 Madoff affair case study, 98-99 of real losses, embedded, 95 of risk, 95-98, 101 risk assessment and, 99-101 start-ups and, 91-92 tipping points and, 89, 90, 92-94 Analysts, 58-59 Analytical process, 83-85 Anchoring, 68

Animal Spirits (Akerloff and Shiller), 65 Annealing, 141 ANTs. See Active Nonlinear Tests (ANTs) Apple, Inc., 92 Apple-buying example: Expected Utility and, 65 present value equation and, 11-12 social embeddedness and, 105-106 Traditional Economics and, 37 value and, 3-4 Applied mathematics, 16 Arenson, David and Cynthia, 99 Arthur Andersen, 138 Artificial Intelligence, 194 Ashby's Law, 191 Atlantic Monthly, 132-133, 134 Autonomy, 146 Avoidance, 98 Axelrod, Robert, 75, 76 Axiomatic paradigms, 80 Axtell, Robert, 39

Bacon, Kevin, 20–22, 45 Banesto, 113 Bankruptcy protection, 56 Barings, 150 Bartering, 4–5 Basel Committee, 178 Baselines, 150 Bear Stearns, 9, 51, 85 "Beating the market," 35 Behavioral Economics: described, 10 experts in, 64–65 BINDEX 03/17/2012 14:7:0 Page 222

## 222

Behavioral Economists, 42 Behavioral Finance, 63 Behavioralists, 10 Beinhocker, Eric, 30-32, 37-38, 39, 190 Belief systems, 7–9 Bell Curve, 123, 125, 126 Best Buy, 146 **Biases:** anchoring, 68 confirmation bias, 71 control, illusion of, 71 disposition effect, 71 endowment effect, 71 gambler's fallacy, 72 groupthink, 71 loss avoidance, 68-69 mental accounting, 72-73 money illusion, 71 overconfidence effect, 70 probability and, 67 projection bias, 70 self-serving bias, 70 status quo bias, 72 sunk cost fallacy, 71 survivorship bias, 72 trust and, 67 tunneling, 72 Bill and Melinda Gates Foundation, 27 Black Swan, The (Taleh), 86, 165, 167, 174 Board-chief executive relationship, 184-186 Board of directors: Duty of Loyalty/Duty of Care, 53-54 member duties, 180-181 organizations and, 178 role of, 178-179 unitary, corruption and, 188-189 Bouazizi, Mohammed, 93 **Boundaries:** concept of, 201 risk capital and, 206 rules for, 203

**Bounded Rationality:** coining of expression, 42, 64 Nobel Prize and, 198 Brigham Young University, 145 Building an economy, 39-41 Business continuity risk, 160 Business Judgment Rule, 180 Business plans, 7–8 "Butterfly's Wings" question, 19 Cairo, Egypt, 25, 33-34 Canada, 53, 178 Capital, 8 Capital One Financial, 138–139 Carnegie Mellon, 167 Carver, John and Miriam, 181 Carver Method: board-chie executive relationship, 184-186 "control" and, 193 control/self-control in, 193 core of model, 181 ends and means, 181–183 "nested box," 193 nested policies, 183-184 network and, 187-188 Network Governance model and, 191 subsystems and, 186-187 Case study: Iceland/credit crisis, 59-60 Madoff affair, 98-99 Catastrophic failures, 30, 32-33, 80, 81,83 Celati, Luca, 86 Change: entrenched entities and, 10 organizational value and, 50-51 systems and, 18 Chaordic, 194 Chaos, 18-19, 91 Charities. See also Nonprofits suppliers and, 54-55 value and, 7, 8 Chicago School of economics, 35–36, 37 Chief Executive, board and, 184–186

Chief Risk Officer, 171 China, 151 Choice(s). See also Outcomes change and, 174 framing of, 148-149 rules and, 203 Cities, 200-202 Citigroup, 114, 134 Clients, 51-52 Closed systems, 17-18, 188 Coase, Ronald, 198 Coffee network, 22-23 Collaboration, 33, 147 Collective-choice arrangements, 206 Columbia Business School, 80 Committee of Sponsoring Organizations (COSO), 100 Commons: management of the, 152, 202-205 risk capital as, 205–206 Commonwealth Association for Corporate Governance, 178 Communication. See also Social network amplification and, 96 within networks, 23, 50-51 role of, 147 Complexity, 191 Complexity catastrophes, 109 Complexity Economics bounds of rationality, 41-42 building an economy, 39-41 emergence of, 11, 63 key takeaways, 46 networks, evolution, social interaction, 44-45 schools in conflict, 35-36 timeliness, stability and, 42-44 Traditional Economics and, 36-38 Complexity Science, 200 Complex systems. See also Systems theory agent interaction in, 11, 63 "Butterfly's Wings" question, 19 "complexity collapse," xvi-xvii

explained, 11 innovation and, 146 perceptions and, xvii "somethings" and, 16, 146 Complicated systems, 11 Computer simulation, 39–41 Conference Board of Canada, 178 Confirmation bias, 71 Conflict-resolution mechanisms, 206 Congruence with local conditions, 206 Connaught, 56, 57 Connectors, Mavens, and Salesmen, 94-95.96 Contract workers, 52-53 Controlled system, 17 Cooperation, 73 Cornell University, 146 Corporate culture, 17 Corruption COSO, See Committee of Sponsoring Organizations (COSO) "Cost to Firms of Cooking the Books, The" (paper), 57 Cousin Louie loan, 5–7, 56 Credit crisis/Iceland, 59-60, 85 Creditors, 56-57 Credit ratings, 162-163 Credit risk, 159 Crisis situations. See Self-organizing groups Crowd behavior, 90-91, 93 Crutchfield, Jim, 31 Cryptography, 132–133 Culture, 17 Customers, 51–52

Dark Side of Risk Management, The (Celati), 86 Darley, John, 8 Darley's Law: case studies and, 150 metric-based incentive systems, 148 objective incentive systems and, 147–148, 149 Prospect Theory and, 148–149 BINDEX 03/17/2012 14:7:0 Page 224

## 224

Decision Research, 81 Dell Computer, 138 Dennett, Daniel, 31 Deutsche Bank, 59 Disaster response groups, 25-26 Discounting: equation and, 12 exponential, 69 hyperbolic, 69-70 of "somethings," 68-69 Discount rates (DRs), 12-13 Disposition effect, 71 Distribution of outcomes: average of all outcomes, 125 fat tails, 127-128 negatively skewed, 136, 164-165, 171 normal (see Normal Distribution) positively skewed, 136, 137, 171 risk management and, 161 tails of, 129, 163, 166 Distributive governance. See Networked and distributed governance Diversification, 172 DNA sequences. See Evolution, game of Domino effect, 16 Dread Risk, 81, 82-83, 87, 98, 101 Drive (Pink), 145 DRs. See Discount rates (DRs) Drucker, Peter, 147 Dukakis, Michael, 97 Dunbar, Robin, 111 Dunbar's Number, 111 Duty of Loyalty/Duty of Care, 53-54, 180-181

Eclipse Aviation, 55–56 Economic capital, 9 Economic crises, 139 Economic governance: bringing it together, 206 cities/organisms/organizations, 200–202 management of the commons, 202–206

markets and/or hierarchies, 197-199 risk capital as commons, 205–206 Economics. See Behavioral Economics; Complexity Economics; Traditional Economics Economist, 10, 60, 194 Edison Electric Institute, 163, 164 "Educated guesses," 66 Efficient markets, 35-36 Eldridge, Niles, 45 Embeddedness, 90 Employees, 52-53 Endowment effect, 71 Enron, 138, 150 Enterprise: analysts and, 58-59 board of (see Foard of directors) case study: Iceland/credit crises, 59-60 creditors and, 56-57 customers of, 51–52 employees, contract workers and, 52-53 executive leadership of, 52-53 influencers of, portfolio view, 171-174 investors and, 52 keystones, values, systems and, 49-50 regulators and, 57-58 retirees and, 59 risk, 160 social network of, 50-51 suppliers and, 54-56 value/how we look, 60-61 Enterprise Risk Management (Lam), 171 Entrenched entities, 10 **Environment:** establishment of, xviii open system and, 18 organization and, 50 Environmental risk, 160 Epstein, Joshua, 39 Equilibrium: economies, prices and, 42

system and, 17

Equitable ownership, 194 Equity analysts, 58-59 Error rates, 162 Error terms, 18 **Evolution:** game of, 30-33 kinship and, 76 networks, social interaction and, 44-45 as risk governance, 159 Evolutionary Psychology, 74 Evolutionary theory, 39 Executive leadership: board-chief executive relationship, 184-186 employees, contract workers and, 52-53 Expected Utility, 65 Expected value, 161–162 Experts, 86–87 Exponential discounting, 69 External/internal parties, 61 Externalities, 151–152 FaceBook, 19, 20 Failure. See also Dread Risk catastrophic, 30, 32-33 partial, 30, 32-33 risk, success, and, 29-30 Single Point of Failure risk, 194 Fairness, 73-74

Fat tails, 127-128, 164, 165

Financial capital, 168, 169

First National Bank of Chicago, 35

"Five Ws and an H" formula, 143

Feedback, 17

Financial crisis:

of 2007, 86

of 2008, 51

subprime, 68

Fisher, Roger, 129

Flash Crash, 43

Flow, 146

Flash product, 92

Fitness landscape, 31

Fooled by Randomness (Taleb), 86, 165 Ford Motor Company, 150 Foreign currency risk, 161–162 For-profit businesses, value and, 8 Framing of a situation, 66-67 Framing Theory, 65 Friedman, Milton, 9, 38, 39, 41 Gambler's fallacy, 72 Game(s): computer simulation, 39-41 of evolution, 30-33 rules-based, 28-29 Game Theory: agents interaction, 63 Prisoner's Dilemma (see Prisoner's Dilemma) "Garbage in, garbage out" problem, 38 Gates, Bill, 26 GDP. See Gross Domestic Product (GDP) Getting to YES (Fisher and Ury), 129 Gladwell, Malcolm, 89, 92–93, 94, 95, 96 Goal-setting, 147 "Going viral," xvii, 89, 93, 94-95 Goldman Sachs, 113 Gould, Stephan Jay, 45 Governance. See also Networked and distributive governance economic (see Economic governance) lessons for, 87 of risk (see Governance of risk) self-, 203-204 Governance of risk: Active Nonlinear Tests (ANTs), 167, 169 credit ratings and, 162-163 expected value and, 161-162 midfield management, 167-168 offense, setup for, 168-170 outcomes/distributions, 164 - 165overall, for organization, 174

portfolio view, 171-174

# 226

Governance of risk (continued) risk management profession, 159-161 risk/risk management and, 157-159 scenario analysis and, 166-167, 168 - 169stress tests and, 166, 167, 168 venture capital view, 170-171 Governance of the Commons, 73 Government intervention, 203 Graduated sanctions, 206 Granovetter, Mark, 89, 90, 91, 93, 94, 95, 96, 104-105 Gross Domestic Product (GDP), 172, 173Group dynamics. See Self-organizing groups Group of Thirty, 178 Groupthink: as bias, 71 networks and, 110 Weak/Strong Ties and, 92 Gulf News, 25 Gulf War, 193

Haas School of Business, 198 Hambrick, Donald C., 145 Hanover Insurance, 193 Hardin, Garrett, 152, 203 Harris, Paul, 27 Harvard, 37 Herding, 67-68 Heuristics, 66, 171 Hierarchies: markets and/or, 197-199 networks and, 111 organizational, 110 subhierarchies, 112 Transmitters and, 112 Holland, John, 31 Honey Crisp. See Apple-buying example Human behavior: anchoring, 68 Behavioral Economics (see Behavioral Economics)

biases and, 70-73 (see Biases) caring/fairness and, 73-74 decision making, 66-67 discounting, 69-70 generally, 63-64 herding, 67–68 loss avoidance, 68-69 Prisoner's Dilemma, 74–76 risk and (see Human reaction to risk) utility, value of, 65-66 Human capital, 8. See also Employees Human reaction to risk: experts in field of, 86-87 governance lessons 87 perception and (see Perception of risk) processing risk, 83-85 quantification as coping mechanism, 85-26 Human resources. See Contract workers; Employees Hyperbolic discounting, 69–70

IBM, 138 Iceland/credit crisis, 59-60, 85 Illusion of control, 71 Incentive systems: metric-based, 148, 149 motivation and, 151 objective, 147-148, 149 Indiana University, 202 Information: asymmetry, 179 in systems, 18 transmission of, 91-92 Transmitters, Receivers, and Signals, 96-98 value, 17, 23 Innovation: rules-based games and, 28 unconnected beginnings, 26-28 **INSEAD School of Business**, 51 Institute of Directors, 178 Insurance risk, 160 Internal/external parties, 61

International Corporate Governance Network, 178 International Institute for Self-Governance, 188 Internet-based social networks. See Social network Intervention, 18 Interventionists, 10, 64, 197 Investors, 52 Invisible Hand: human psychology and, 64 marketplace feedback and, 18 open market and, 9-10, 197 iPhone, 92 Jain, Dipak, 51 John Lewis Partnership, 192 J. P. Morgan, 113 **IPMorgan Chase**, 52 Just-in-time-delivery, 54 Kahneman, Daniel, 10, 64, 65 Karpoff, Jonathan, 57 Kasperson, Roger and Jeanne, 89, 95 Kaufmann, Stuart, 31, 109 Keating, John, 52 Kenyon, Lisa, 168 Kevin Bacon network, 20-Key Man insurance, 53 Keynes, John Maynard, 10, 64 Keystones: forms of, 49 value, systems and, 49-50, 61 Kidder Peabody, 150 Kinship, 76 Lam, James, 171 Lattice pattern, 122, 124 Law of Requisite Variety, 191

Lee, D. Scott, 57

LinkedIn, 19, 20

provider, 85

Liquidity:

crises, 51

Lehman Brothers, 9

Legal risk, 160

risk, 160 Logan, Chris, 192 Lorenz, Edward, 19 Loss avoidance, xviii, 68-69, 139-140 Loyola University, 188 Macroeconomics, 9, 10 Madoff affair, 98–99 Management by Objectives, 146–147, 151Market(s). See also Stock prices "beating the," 35 computer simulation and, 40 efficient, 35-36 hierarchies and/or, 197-199 open, 9 power of, 45Market risk, 159 Martin, Cerald S., 57 Mass behavior, 90-91, 93 Mastery, 146 Matten, Chris, 151 Mental accounting, 72–73 Microsoft Corporation, 26-27 Middle East, xvi Midtown Manhattan: average value/range of values, 123 lattice pattern, 122, 124 normal distribution, 125, 126 path of a problem, 135 potential outcomes, 121-125 random walk across, 119-120 value of journey, 125-126 Miller, John, 167 Minimal recognition of rights, 206 Misrepresentations, 57 Mission statements, 7 MIT, 190, 194 Mondragon Cooperative Corporation, 192, 194 Money, 5–6. See also Foreign currency risk Money Illusion, 71 Monitoring, 203, 206 Morning coffee network, 22-23

## 228

Motivation: Darley's Law and (see Darley's Law) free externalities and, 151-152 generally, 143-144 incentives and, 145-146, 151 Management by Objectives, 146-147 management of the commons, 152 within organizations, 144-145 Risk-Sensitive Foraging Theory and, 150 Mubarek, Hosni, 33 Multiple Points of Failure, 140 National Aeronautic Association, 55 National Association of Corporate Directors, 178 National Australia Bank, 150 Natural disasters, 25–26, 80. See also Self-organizing groups Natural systems, 49 "Nature of the Firm, The" (paper), 198 Negative feedback, 17 Negatively skewed distribution, 136, 164, 171 Negative risk, 69 Negative stigmatization/branding 97-98 Nested enterprises, 206 Nested policies, 183–184 Network(s). See also Trust, in networks agents in, 39, 106-108 complex, 109-112 dense, 109, 110 evolution, social interaction and, 44 - 45hierarchical, 111 internal/external parties, 61 people in, 189–191 strong ties (see Strong Ties in networks) weak ties (see Weak Ties in networks) Networked and distributive governance: board-chief executive relationship, 184-186

board member duties, 180-181 board's role and, 178-179 Carver Method and, 181 ends and means, 181-183 generally, 177 integration, distributive models and, 193-194 nested policies, 183-184 network, bringing in, 187-188 people in network who care, 189-191 principal-agent relationships, 179-180 rollout, 191-192 subsystems and, 186-187 transparency and, 192–193 unitary board, corruption and, 188-189 Network Covernance, 188, 191, 193 Network graphs, 20, 21, 22, 23 Network science, 16 Network Theory: coffee network, 22–23 power of relationships, 22 "Six degrees of Kevin Bacon," 20-22 social network sites, 19, 20 New York. See Midtown Manhattan New York Times, 89 New York University, 113 Nobel Prize in Economics, 64, 198 Nobel Scientific Committee, 205 Nonequilibrium setting, 43 Nonlinear dynamic systems, 19, 44-45 Nonprofits. See also Charities analysts and, 58 board members, 54 customers of, 51 investors and, 52 Normal Distribution: Bell Curve representing, 123 expected value and, 163 of journey endpoints, 125 positive and negative values in, 126

Nuclear power plants, 95

Obama administration, 37 Objectives, 146-147 O'Brien, Bill, 193 OECD. See Organization for Economic Cooperation and Development (OECD) Open market, 9-10, 197 Open systems, 17–18 Operational risk, 160 Opportunity, values and, 4 Option-based compensation, 144–145 Organisms, 200-202 Organizational life, 128–129 Organizational value, 50 Organization(s): cities, organisms and, 200-202 environment and, 50 as keystone element, 50 self-organization and, 33-34 social network of, 50-51 types of, 8 Organization for Economic Cooperation and Development (OECD), 178 Origin of Wealth, The (Beinhocker), 30, 37, 190 Ostrom, Elinor, 73, 202-205 Ostrom, Vincent, 202 Outcomes. See also Fat tails; Normal Distribution average, 123 choices/probabilities, 122 of complex interactions, 119 distribution of, 163, 164 (see Distribution of outcomes) uncertainty and, 127, 128 Overall governance, 174 Overconfidence effect, 70 Owner, acting like an, 144 Partial failures, 30, 32-33

Path-dependent system, 44 Path of a problem: calculation errors/spreadsheets, 134–135

potential impact, 134, 135-136 uninterrupted problems, 136 in well-governed organization, 136, 137 Pattern(s): of behavior. 36 dynamic and nonlinear systems, 44 - 45recognition, 42 Penn State, 145 Pension fund/pension plan, 52, 58 Perception of risk: catastrophic risk/loss, 79-80 Dread Risk, 80, 81, 82-83 paradigms, 80 Risk of the Unknown, 80, 82–83 value and, xvii 16 Perceptions, zvii, 3, 61 Pink, Daniel, 145-146, 147 Piper Jatiray, 168 Policy Governance, 181 PolioPlus program, 27–28 Political capital, 8 Political economies: entities in, 172 as open systems, 18 suppliers and, 55 value and, 8 Political organizations. See also Selforganizing groups board of directors, 54 customers of, 51 suppliers and, 55 Political risk, 160 Political systems, xvi Political uprising group, 25, 33-34 Politics/politicians: analysts and, 58 campaigns/creditors to, 56 fear/polarization and, 97 investors and, 52 Pollution, 151 Ponzi scheme, 98-99 Portals, 31, 33 Portfolio approach, 201

BINDEX 03/17/2012 14:7:0 Page 230

## 230

Portfolio view of enterprise, 171-174 Positively skewed distribution, 136, 137, 171 Power laws, 128, 166, 167, 200-201 Power of relationships, 22 Practice of Management, The (Drucker), 147 Present value equation: components of, 12 discounting, 12 generally, 11 investments/perceived risk, 13 "somethings" and, 13-14 Princeton University, 8, 147 Principal-agent relationships, 179-180 Prisoner's Dilemma: common resources and, 203 cooperation and, 108 described, 74-75 "friends" and "enemies," 75-76 programmatic behaviors and, 75 PRMIA. See Professional Risk Managers' International Association (PRMIA) Probability, 67 Probability distribution, 123. See also Distribution of outcomes Problem, path of. See Path of a problem Problem Response Team, 168 Professional Risk Managers' InternationalAssociation (PRMIA), 113, 178 Projection bias, 70 Project risk, 160 **Prospect Theory:** framing of a choice, 148-149 risk-based decisions and, 64, 65-66 utility functions and, 127 Protests, 93 Psychologists, 64 Psychology. See Behavioral Economics Psychometric paradigm, 80 Punctuated equilibria, 45 Purpose, 146

Quality control, 162 Quantification, 85-86 Quasi-stochastic outcomes, 119 Rationality, 41-42 Reciprocal altruism, 73 Reciprocity, 73, 74 Regulation, social, 107 Regulators, 57-58 Relationships, power of, 22 "Reputational penalty," 57 Reputation risk, 160 **Resiliency:** development of, 140-141 loss avoidance and 139–140 path of a problem (see Path of a problem) points of failure and, 132–134 unexpected problems and, 132 Value Equation and, 131, 140, 141 "Results-Only Work Environments" (article), 146 Retirees, 59 Rewards. See Incentive systems Riotous behavior, 90–91 Risk(s). See also Dread Risk; Human reaction to risk amplification (see Amplification(s)) assessment grid, 100-101 aversion, 65-66 -based decisions, 64 Capital (see Risk capital) critical, resiliency and, 137-139 defined, 29 event, stigmatization and, 97-98 governance of (see Governance of risk) identification, 170 -loving behavior, 150 management of (see Risk management) negative, 69 perception of (see Perception of risk) processing, 83-85

social amplification of, 95-98

tolerance, 168 transfer, 158 value and, xv, xvi Risk capital: as commons, 205-206 costs and, 169 requirements, 168, 169 subdivisions and, 173 **Risk management:** around expected value, 161-162 defensive, 161, 167-168, 170 governance of, 157-159 profession/specializations, 159-161 risk and trust and, 114 Risk of the Unknown, 80, 82-83, 85, 87, 192 **Risk-Sensitive Foraging Theory**, 150 Rollout, 191–192 Rotary International, 27 "Rule of 150," 111-112 Rules-based games, 28-29 "Rules of thumb," 66 Salomon Brothers, 113 Sanctions, 206 Sanders, William Gerald, 145 Santa Fe Institute, 37, 39, 109, 200 SARF. See Social Amplification of Risk Framework (SAPF) Savings and Loan crisis, 52 Scenario analysis, 166–167, 168–169 Schneier, Bruce, 132-133, 134, 168 Science of systems. See Systems theory Secret agents, 15–16 Securities and Exchange Commission, 57,138 Security risk, 160 Self-governing systems, 203–204 Self-organizing groups:

belt-organizing groups: beginnings of, 26–28 game of evolution, 30–33 games, rules-based and, 28–29 group dynamics, 25–26

organizations and, 33-34 risk, success, and failure, 29-30 value and, 8 Self-serving bias, 70 "Sell" rating, 58 Senge, Peter, 194 Senior management. See Executive leadership Sensitivity to initial conditions, 44 September 11, 2001 terrorist attacks, 133 Shiller, Robert, 65 Simon, Herbert, 10, 42, 64, 198 Simulations, 28-29 Single Point of Failure, 194 "Six degrees of separation from Kevin Bacon," 20-22,45 Sloan School of Management, 190 Slovic, Paul, 81, 84, 86, 95 Smith, Adam, 5, 18, 64 Social amplification. See Amplification(s) Social Amplification of Risk Framework (SARF). See also Amplification(s) amplification, stages and, 96, 97 described, 89 Information Sources, Transmitters, Receivers, and Signals, 96-97 utility and, 95 Social interaction: embeddedness, 105-108 networks, evolution and, 44-45 Social network. See also Communication of organization, 50-51 success factors, 111 web sites, xvi, 19, 20 Social organizations: board of directors, 54 suppliers and, 55 Social regulation, 107 Sociocultural paradigms, 80 "Somethings:" complex systems and, 16, 146 discounting of, 68-69 Expected Utility and, 65 in Value Equation, 12, 13-14, 127

BINDEX 03/17/2012 14:7:1 Page 232

## 232

Sonv. 134 Stability, timeliness and, 42-44 Stakeholders, 181 Stand-alone, 49, 50 Stanford University, 89 Status quo bias, 72 Stigmatization, 97-98 Stochastic outcomes, 119 Stock option plans, 144-145 Stock prices. See also Market(s) American Superconductor, 59 analytical process and, 85 good/bad news and, 85 patterns of behavior, 36 Salomon Brothers, 113 value and, xv Strategic risk, 160 Stress tests, 166, 167, 168 Strong Ties in networks: agents and, 109 groupthink and, 92 impact/importance of, 90 information and, 96 resiliency and, 141 risk management and, 158 rollout and, 191 types of people as, 91 uncertainties and, 105 Strong ties in organization, 146 Subprime financial crisis, 68 Subsystems, 186–187 Summers, Larry, 37 Sunk cost fallacy, 71 Supervisory Board, 190, 195 Suppliers, 54–56 Supply chain risk, 160 Survivorship bias, 72 Swiss Bank Corporation, 151 System(s): agents in, 39 closed, 17-18 controlled, 17 information in, 18 keystones, values and, 49-50 Multiple Points of Failure, 140

open, 17-18 organizational life in, 128 - 129theory (see Systems theory) threats to, 137-139 Systems theory: "Butterfly's Wings" question, 19 changes in system, 18-19 closed/open systems, 17-18 control of systems, 18 feedback, positive/negative, 17 information processing functions, 18 knowledge of system, 19 origins of, 16 Tahrir Square, 25, 33 Taleb, Nassim Nicholas, 86, 165, 166, 167 "Talking point memos," 97 Technology risk, 160 TED Global conference, 200 Temasek Holdings, 151 Thaler, Richard, 64 Theory. See Game Theory; Network theory; Systems theory Theory of Moral Sentiments, The (Smith), 64 Thomas, Henk, 192 Threats to system, 137-139 Three Mile Island incident, 95 Thresholds of collective behavior, 89, 90 Tiebout, Charles, 202 Timeliness, stability and, 42-44 Tipping Point, The (Gladwell), 89, 111 Tipping points: connectors, mavens, and salesmen, 94-95 defined, 91-93 as social amplifications, 90 **Traditional Economics:** vs. Complexity Economics, 46 dominant division in, 197 feelings and, 73 individuals in networks, 104

problems with, xvi, 36-38 rational behavior and, 122 time, equilibrium and, 42 Utility Theory in, 65 "Tragedy of the Commons, The," 152, 203 Transparency, 192-193 Travelers Group, 113 Trust: bias and, 67 governance, transparency and, 192-193 in networks (see Trust, in networks) Trust, in networks: "acceptable uncertainty," 104 cooperation and, 108 "embeddedness," 104-105 generally, 103 punishment for violations, 112-114 risk management and, 114 social embeddedness and, 105-108 subhierarchies and, 112 value and, 114-115 Trust Enablement, 104 Tunneling, 72 Turnbull, Shann, 188, 189-191 Tversky, Amos, 10, 64, 65 Uncertainty, 29, 105, 12 Union Carbide, 139 Unitary board United Health Group, 144 United Kingdom, 56, 178 University of California at Berkeley, 198 University of Chicago, 37, 38, 64 Ury, William, 129 U.S. Army, 150 U.S. Bancorp, 168 U.S. government, 134 U.S. military, 193 Utility: SARF and, 95

value, fat tails and, 127-128

value and, xvi, 65-66

114-115, 131 Utility functions, 127 Utility Theory, 65 Value: apple example, 3–4 complex systems and, 11 creation of (see Value creation) defining, 3 expected, 161-162 factors affecting, xvi, 16 governance, transparency and, 192-193 how we look affects, 60-61 information, 23 keystones, systems and, 49-50 of money, 5-6 perceptions and, xvii, 3 resiliency and (see Resiliency) risk and, xv, xvi rust and, 114–115 utility and, xvi, 65–66, 127–128 value and, 7-8 Value creation: economics and, 9-12 games and, 28-29 stock prices and, xv Value Equation: acceptable uncertainty and, 104 additional risk introduced, 150 discount rate and, 13, 79, 115 explained, 11-13 how we look affects our value, 60-61 increase in risk and, 90 key points, 13-14 SARF model and, 95-96 "somethings" in, 12, 13-14, 127 utility and, 89, 103, 114-115, 131 Values: commons, viewed as a, 152 opportunity and, 4 value and, 7-8 Venture capital view, 170-171

Value Equation and, 89, 103,

## 233

# 234

Vietnam War, 150 Visa International, 191, 194 von Bertalanffy, Ludwig, 16 von Hippel, Eric, 190

Waitrose, 192 Wall Street, 9 Wall Street Journal, xv Walter, Ingo, 113-114 Warren, Robert, 202 Watchdog Board, 190, 195 Weak Ties in networks: agents and, 109 heuristics and, 171

impact/importance of, 90 information and, 91-92, 96 resiliency and, 141 risk management and, 158 rollout and, 191 Wealth, xvi-xvii Wealth inequalities, 40 Wealth of Nations, The (Smith), 64 Weber, Elke, 80, 84, 86 West, Geoffrey, 200 Williamson, Oliver, 198-199, 202 Working capital, 56 World War I story, 108