

Leadership in Crisis

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Financial Crisis – Failed Leadership?

Following the filing of bankruptcy by Lehman Brothers, the fourth largest investment bank in the United States on 15 Sep 08; the financial systems around the world have taken a tail-spin in an unprecedented manner since the Great Depression. Given the interconnectivity of the global economy and financial markets; the knock-on effects had led to the bottoming of stock markets across the world, eroding trillions of dollars of financial institutions and corporations in terms of market value.

For the first time, consumers are exposed to technical terms such as sub-prime mortgages, credit default swaps, mortgage-backed securities and the now infamous CDOs. In Asia, many depositors still cannot come to terms and realization of the risks of structured deposits after losing their entire savings.

Is the current financial crisis a failure of the complex financial instruments or the failure of leaders on Wall Street?

Greed and Short Term Gains

For the longest time that I can remember, many critics have often argued that the boards and senior management of large and multi-national corporations are focusing too much on bringing short term gains to appease the impatient shareholders than enhancing the longer term value of their organisations. An article that I read recently pointed out that CEOs and senior management of financial institutions like Bear Stearns, Lehman Brothers, AIG, Countrywide Financial and Washington Mutual are in the category of sacrificing their organisations' futures in order to maximize short-term gains to the extent of under-pricing of risks in exchange of immediate fee income and taking on inordinate levels of debt to invest in complex and highly uncertain instruments.

The CEO as the leader has the primary duty to preserve and enhance the viability of the organisation. However, the leaders of the financial institutions mentioned above are too focused on short-term gains as their huge bonuses are pegged to the former. As a result, instead of ensuring the survivability of their organisations and building the foundation for the long term, their behaviours mimicked failed leaders of the like of Jeff Skilling of Enron and Bernie Ebbers of WorldCom. The key difference now is that there is no clear indication here of any illegal actions being taken.

As the lure of short term gains is so high, leaders can always find creative financial talents around to continue to invent new models and instruments precisely to create short-time gains. The problem is that many of these brilliant people who invented these new complex instruments often has inadequate understanding of the consequences and pitfalls these instruments bring about. Many blame these problems on greed but as we all know, greed is nothing new and history has repeatedly shown us how greed has brought down many great mortals.

Crisis Leadership

Nothing tests a leader like a crisis. While the highly charged and often dramatic events surrounding a crisis like the current financial turmoil will profoundly affect the people in any organization and even threaten its survival, there are actions a leader can take before, during and after to reduce the duration and impact of difficult situations.

A good leader knows that crisis management goes beyond managing corporate communication. He must be able to leverage on the current crisis situation as a means for creating change, building a foundation of trust with its people and outside the organisations in particularly its customers, suppliers and vendors.

Many leaders want swift action to address a crisis quickly but numerous case studies have shown that an organisation that is able to take on stress on a more prolonged nature will emerge stronger. However, no organisation and its people like to confront changes and the accompany pains but it is the conflict associated with changes that allow an organisation to grow and learn.

In a 2005 paper on "Crisis – a Leadership Opportunity" (Harvard University), its authors shared that a leader can manage the stress level within the organisation by using either the technical or adaptive techniques. A technical response provides an immediate solution which is akin to putting water to extinguish a fire. Such a technical response leverage on a clear set of procedures toward some well defined problems. In many cases, leaders who are looking at cutting staff cost immediately chose restructuring at its first solution. When I was first exposed to a major merger exercise back in 1997, the consultants whom had extensive experience in merger management highlighted that the bank can achieve an immediate benefit realization by reducing 20% of staff of the merged entity. This I now learn is the technical response.

On the other hand, an adaptive approach is normally applied when a problem on hand is not well understood or there is no adequate response, clear expertise or established procedures. Using the earlier example of a fire, an adaptive response is like instituting some complex fire prevention measures. Adaptive solutions however address the underlying root issues that are causing the conflict.

While technical solution reduce stress almost immediately, the adaptive approach requires the entire organisation to be prepared to face their current dysfunctional habits, values and attitudes squarely – this confrontation often leads to increased organizational stress and sometimes, the collapse of the organisation. A crisis leader will surely recognise that while technical solutions are suitable and appropriate to reduce immediate threats, they are inadequate for long-term organizational growth that requires more innovative and adaptive measures.

Character, Substance and Integrity

The Board of directors has a heavy responsibility to select the right leader known for character, substance, and integrity and monitor closely his actions in managing crisis. Should they endorse quick measures to address immediate dangers as in the case of meeting short-time gains as opposed to having a leader that steer the organisation into the conflict zone and emerge stronger through learning and adaptation for the longer term benefits of the organisation?

There are many live examples out there now and we will over time witness those organisations that can finally emerge through this financial crisis stronger and fitter. Look out for these leaders and follow them.

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