

## Leadership on Trial - Lessons from the Economic Crisis

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IVEY EXECUTIVE DEVELOPMENT

Leadership on Trial

# **WHY AND HOW**

Religious leaders blame bankers greed  
for financial crisis

Obama: Greed led to economic crisis

Greed and Fear: The golden age of  
finance collapsed under its own  
contradictions

# The pedagogy of the privileged

## Business schools have done too little to reform themselves in the light of the credit crunch

This has been a year of sackcloth and ashes for the world's business schools. Critics have accused them of churning out jargon-spewing economic vandals. Many professors have accepted at least some of the blame for the global catastrophe. Deans have drawn up blueprints for reform.

(Economist, September 24, 2009: print edition)

# Objective of the Project

Learn from the economic crisis to develop a "leadership manifesto" that will (re)shape leadership practice and education. This will be a public declaration of aims, policies and processes for developing next-generation business leaders.

This is consistent with Ivey's mission: "To develop leaders who think globally, act strategically and contribute to the societies within which they operate".

# Questions

1. What went wrong with leadership that contributed to the 2008 - 2009 financial crisis and the devastation to people, organizations and national economies that followed it?

2. Was this problem with leadership confined to the few organizations at the epicenter of the financial meltdown or did this crisis reveal more broadly based problems with leadership in both private and public sectors?

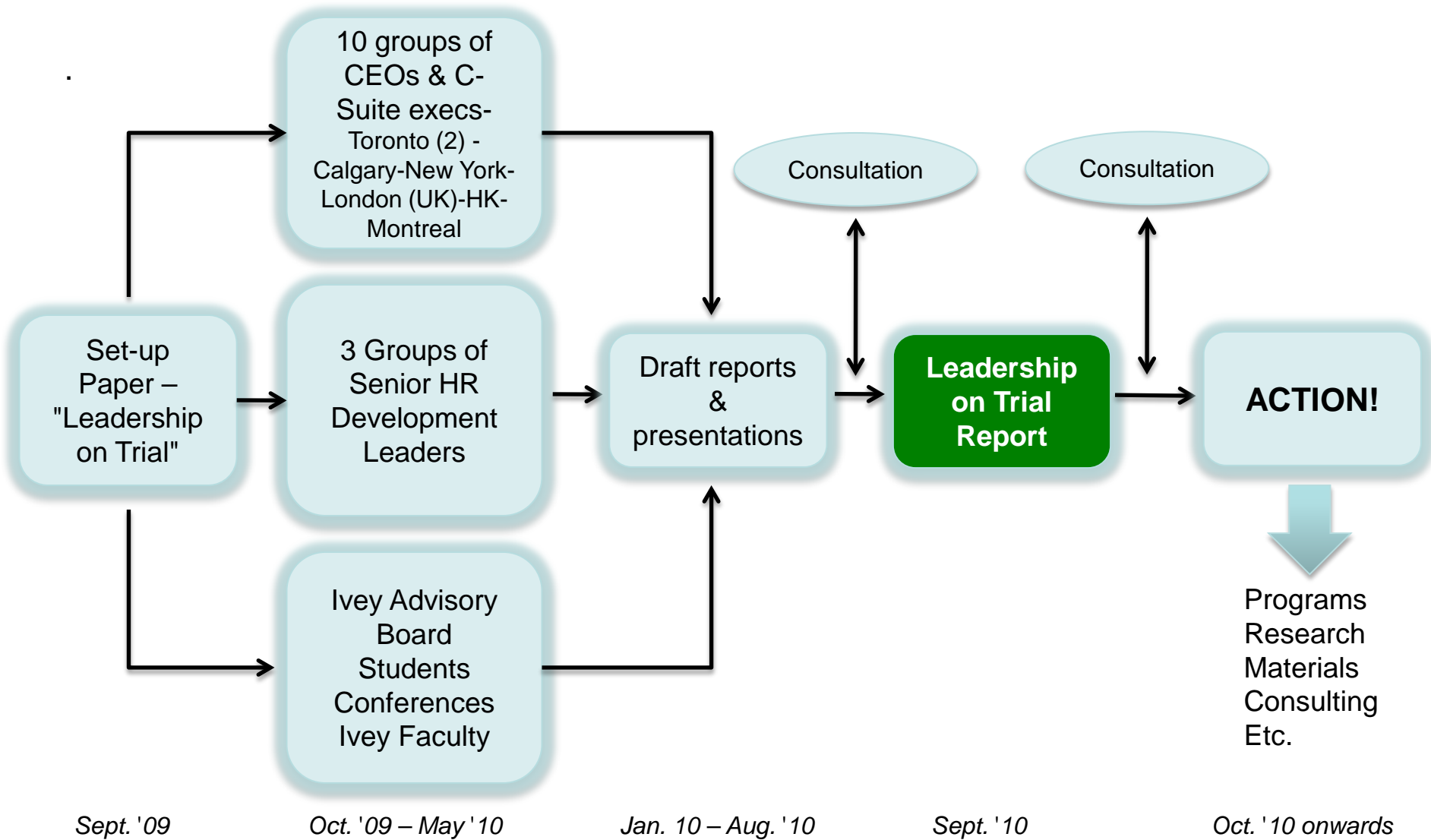
3. What can we learn from those organizations and leaders who anticipated the crisis and avoided it completely, or who coped well throughout the last couple of years and are therefore in good shape to benefit from the recovery?

4. What more do we need to do, or do differently, to prepare the current generation of leaders to deal with the kinds of challenges that we have seen organizations face in the last couple of years and for those – as yet unknown – that they will face in the future?

# Leadership Manifesto Content

1. A description of the context within which this research was carried out – the economic boom, financial crisis, recession and recovery of 2003-2010.
2. The research itself, divided into a brief section on methodology, and the findings from our interviews, focus groups and other consultations, and the conclusions we drew from the research.
3. Principles of leadership addressing what good leaders do, who they are, how they develop and how organizations can develop more, and better, leaders.
4. A call to action suggesting what management educators, executives, boards, HR and learning and development professionals can do to improve the current practice of leadership and develop next-generation leaders.
5. A short conclusion that outlines our commitment to continue to develop curriculum, materials and programs that support the concepts and principles underlying good leadership argued for in this book.

# Process





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# **FINDINGS**

# Findings

A predictable recession and liquidity problem + a "Black Swan" global financial meltdown.

Leadership failures and successes. Some leaders "got it" while others didn't.

Failures and successes in anticipating the financial crisis and coping with it were widely distributed across industries and geographies.

Failures attributable to leadership decisions and actions not a generalized "systems failure".

Many factors contributed to the failure and attempts to define one single cause – greed, executive compensation, poor governance, or others – are likely to prove inadequate.

# Key Distinguishing Elements

	Failed or Hurt Badly	Survived or Prospered
<b>Competencies</b>	Overreliance on quantitative models. Inadequate understanding of complexity and systems risk. Poor, risky organizational designs. Corporate and team cultures intolerant of dissent.	Basic understanding of economic cycles. Understanding complexity and systems thinking. Balance sheet management. Good organizational design and cultures of constructive dissent. Effective control of subsidiary risk.
<b>Character</b>	Overconfidence, hubris, arrogance. Groupthink. Hyper-competitiveness. Greed, pride, sloth, envy, lust, gluttony, wrath. Narcissism. Self-centeredness.	Temperateness, prudence, open-mindedness. Social responsibility.
<b>Commitment</b>	Lack of engagement or involvement with subsidiaries.	To the real, gritty, hard work of leadership while, at the same time, both accepting and living up to their responsibilities to the communities and societies within which they operated. Awareness of what it takes to lead and engagement in the task of leading.
<b>Learning</b>	Appeared to have learned little from history of economic and financial crises.	Were aware and conscious of historical events. Learned from the past.
<b>Governance</b>	Boards not understanding risk well enough, not engaged enough in monitoring and questioning it.	Boards with sophisticated risk management skills and risk oversight processes and structures.

# Risk management

- They always asked me what keeps me awake at night. I remember that somewhere I would include in my answer, "what keeps me awake at night is [quantitative] models."
- What I've learned most about leadership during the last few years, certainly from within the banking services business, is how little we have collectively placed on the importance of appropriate questioning. And, to me that is the essence of risk management, not spreadsheets or ticking boxes. It is an appropriate question.

# Organizational design

- It is incredibly important for businesses to invest in proper infrastructure, proper risk management and to centralize risk ... if you look at some of the failures ... you had regional businesses who were doing whatever they wanted to do and there was no oversight.

# Culture of constructive dissent

- It is essential to create a culture that is open and honest so that the leaders are in touch with what is happening in the organization. If you asked a difficult question or if you were a contrarian, you were decimated ... you were thrown out.

# Character

- If people get a chance to make a lot of money, they sometimes do not care who they step over to get there. You are never going to wrestle greed to the ground. It wasn't a financial crisis. This was a collapse of values. It comes down to character – it comes down to ethics.
- Doctors, lawyers and accountants know about the standards of acceptable behavior that they need to live up to. I am not sure that business schools create that same standard among their graduates. I think that leads to a lot of problems with integrity and character.

# Commitment to the leadership role

- There were leadership issues in the complexity problem – leaders didn't want to get their hands dirty to learn the details and they didn't facilitate the right discussions.
- You must learn to listen to vague whispers. People will not come storming into your office saying, "There's a hell of a problem here."
- Some people were in denial. Others recognized there were big flaws, but some were unwilling to act or did not have the courage to act, and others thought they were too small to act.



# Learning

- In good times a lot of sins are encouraged and perpetuated. In 2007, a lot of people were saying, "Isn't it amazing how great things are?" Our CEO said "Yeah, I haven't felt this good since the summer before the Long-Term Capital Crisis." We woke up.

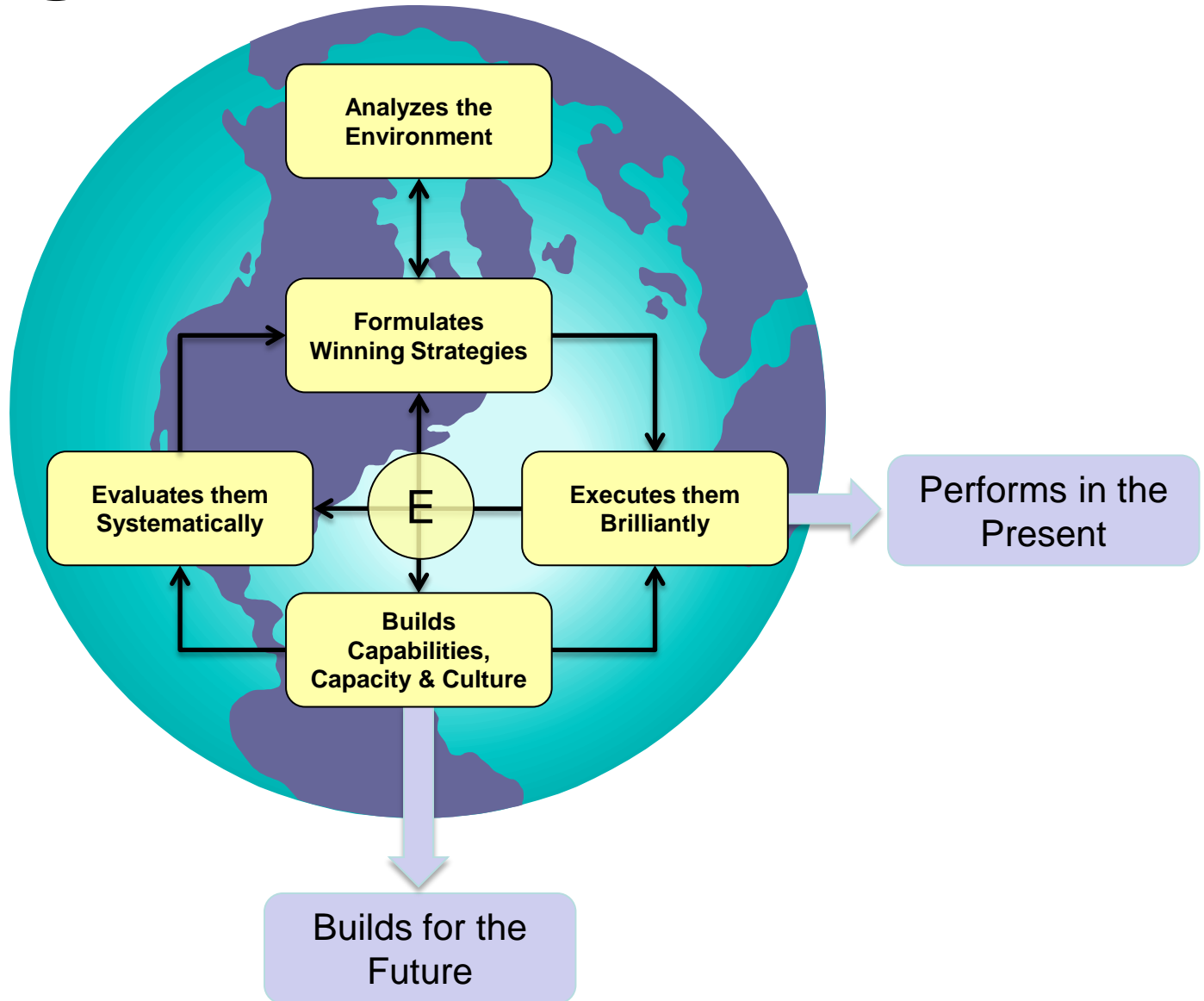
# Governance

- Leadership will be more team focused and less individual focused as we move forward. We need more scrums (rugby) where someone is a dissenter. We need more diverse voices and lateral thinkers. We need more paddlers ... not people who stand around trying to predict the path of the river.
- So maybe you take a board that thinks they're well governed and well educated and well connected and well informed in their industry and you take them to a secluded spot and you stress test them, like, for a weekend and really, truly hit them with stuff that they never thought would happen. And, when they react to them, you hit them again and again. And, it would be a huge wake-up call for an organization.

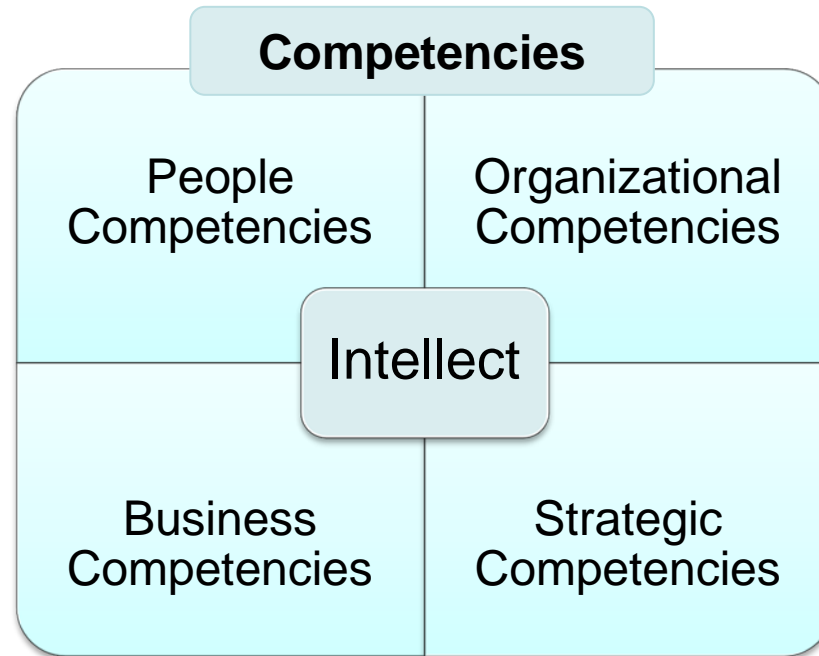
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# **GOOD LEADERSHIP**

# The **E** Enterprise-Focused Leader



# Leadership Competencies



## "Competencies"

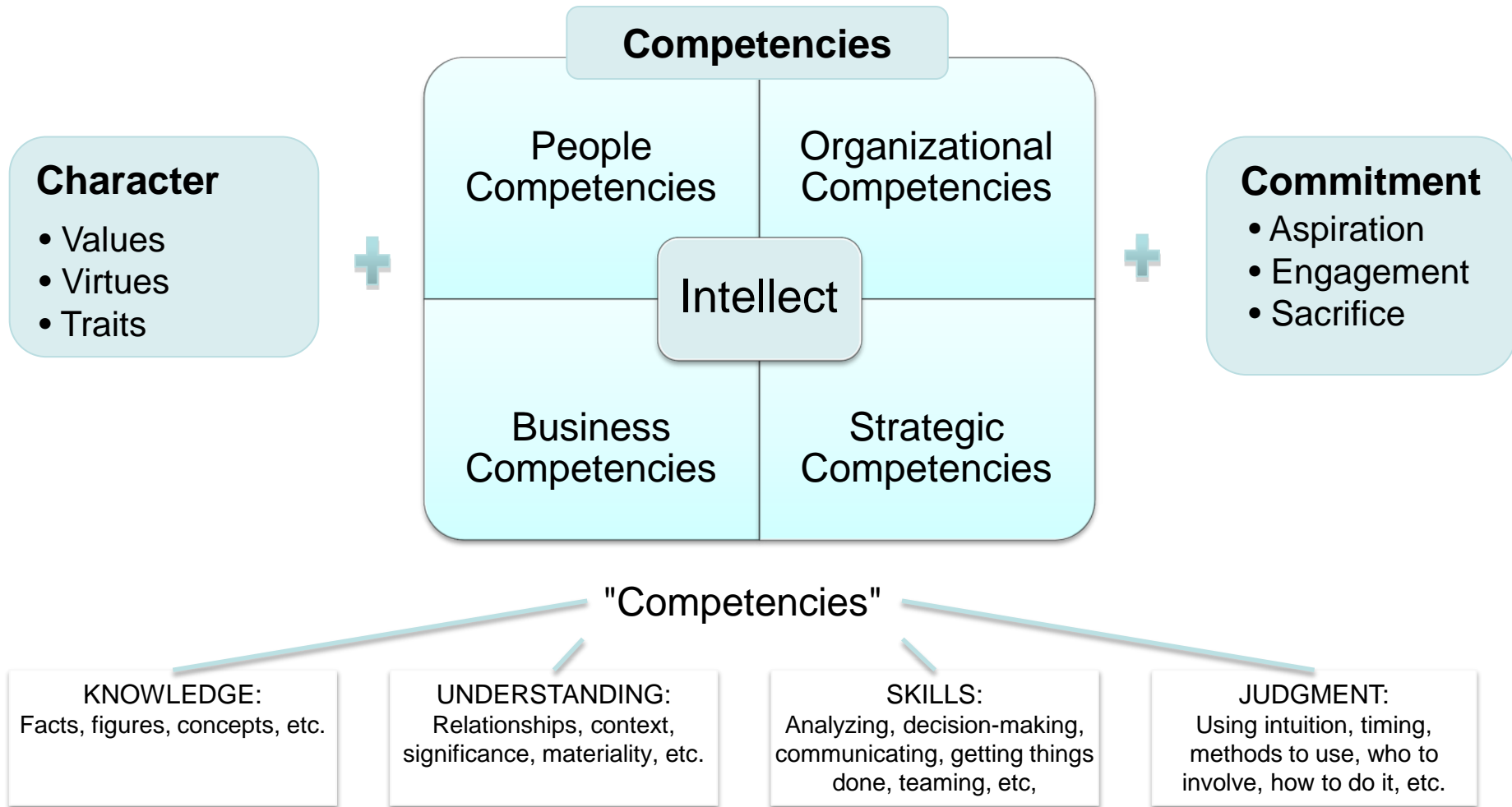
**KNOWLEDGE:**  
Facts, figures, concepts, etc.

**UNDERSTANDING:**  
Relationships, context,  
significance, materiality, etc.

**SKILLS:**  
Analyzing, decision-making,  
communicating, getting things  
done, teaming, etc,

**JUDGMENT:**  
Using intuition, timing,  
methods to use, who to  
involve, how to do it, etc.

# The Effective Leader



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# **CALLS TO ACTION**

# Business Leaders

- Create cultures of constructive dissent within their teams and organizations.
- Insist on character assessment and development as much as they focus on competencies.
- Lead the development of "leadership profiles" in organizations.
- Focus on continuous organizational learning by being continuous learners.
- Be the strongest advocates of anticipatory leadership and the prime enemies of complacency.
- Challenge the use of current business models as lenses for environmental interpretation.



# Next Generation Leaders

- Strive to develop the full range of your leadership potential. Know yourself—get in touch with your values, understand your personality traits and recognize how they impact others.
- Take reasonable risks with your career to stretch and learn. Be prepared to make mistakes but be even more prepared to learn from them.
- Stay grounded. Recognize no matter how much success you have, your only guarantee of future success is to retain your basic humility.

# HR/OD/LD Executives & Professionals

- Develop leadership profiles that go beyond defining competencies and address both character and commitment.
- Work on developing more effective partnerships for development with senior leaders.
- Develop the policy frameworks, pathways, processes and programs that address competencies, character and commitment as an integrated set of leadership development elements.

# Boards and Directors

- Expand exposure to other executives and managers beyond the CEO.
- Improve their own understanding of risk and its management and, where necessary, strengthen the board's collective competencies in the risk area.
- Get external, third-party assessments of risk.
- View compensation as a risk issue not just an HR issue.
- Beware of overconfident, controlling, narcissistic CEOs who try to "manage" their boards.

# Management Educators

- Increase exposure of students to economic and social history.
- Develop better understanding of systems thinking and complexity.
- Do a better job of alerting students to reality-distorting phenomena.
- Validate and legitimize using values in decision-making.
- Dial-up exposure to socially responsible leadership as both smart and good leadership. Dial-back the emphasis on "shareholder value" as the only bottom line.
- Role-model good leadership in personal behaviors and interactions.
- Run programs the way good leaders run organizations.

# Ivey's Commitment

- To be in the forefront of developing courses and materials (cases, simulations) for use in leadership development programs.
- To commission and execute leading-edge research focused on real world leadership challenges through the Ian O. Ihnatowycz Institute for Leadership at the Richard Ivey School of Business and the activities of our faculty and doctoral students in their various disciplines and interest areas.
- To make this research accessible and useful to leadership practitioners.
- All of this to ensure that Canada will have one of the top-10 leadership institutes in the world so that Ivey can achieve its enduring mission:

*To develop business leaders who think globally, act strategically and contribute to the societies in which they operate.*

# Our Position

- We do not accept that the excesses, misjudgments and inactions of the last few years are inevitable and must somehow be repeated.
- But we recognize they could, and likely will be, unless concerted action is taken to learn and apply the lessons from this crisis.
- In addition to legislative and regulatory change now well underway, we require improved management education, better leadership development within organizations, and better training and development of regulators and policy-makers.
- Cynics say this will never happen. Skeptics say it's unlikely. We say there is no alternative that makes sense for our future economic prosperity and social well-being.