



# In search of the Great Emancipator Leader

How can your organisation develop more collaborative and process approaches to leadership? What obstacles are standing in the way of your organisation adopting more value-based reward systems, and can they be overcome? Who in your organisation practices leadership through influence, and how can you harness that energy and optimise it for even more success? SP Jain Center of Management's Dean of Leadership, Dr Dawn Dekle, considers the changing nature of leadership in the financial industry

**T**he call for a new approach to leadership is the salt and pepper of every article written about the global financial crisis. In fact, nothing less than a paradigm shift in leadership is underway during these difficulties. Like never before, leaders will need new skills to be effective in handling the complex boundary-spanning challenges. Although financial tycoons like Bernie Madoff made headlines and caused a decline in the reputation of the financial industry, it is important

to remember that the majority of financial leaders acted ethically and responsibly. In fact, C-level turnover has actually declined 15% since the global financial crisis began; companies are generally satisfied with their current leadership. These leaders do not make the headlines, however; and the story that has not been written is how leadership is the differentiator between the best and worst performing financial institutions.

The best knowledge and problem-solving skills in the world

cannot compensate for poor leadership. Leaders of companies that have weathered this financial crisis well are those who have taken the initiative to create an environment that redraws boundaries and identifies opportunities that are bred by the crisis. One of these standout leaders is James L Dimon, Chairman and CEO of JPMorgan Chase. Even prior to the crisis, Dimon cut costs at JPM, including handphones for executives, which in the short term, drew criticism as micromanaging and obsessing over small details but in the mid-term has now come to make perfect sense. These small changes, when added together, made JPM leaner and ready to shift quickly when the financial crisis hit while JPM's rivals fell victim to the bust. Dimon's previous experience – including successfully merging Bank One with JPMorgan Chase in 2004 - gave him the confidence and knowhow for him to engineer the acquisition of Bear Stearns when it needed a buyer.

### DEVELOPING ECONOMY LEADERS MORE EXPERIENCED AT CHANGE

According to Boyden, the elite global executive search firm, companies are now in search of candidates for leadership positions who have already had experience going through a massive change programme. But leaders with this kind of experience are rare in developed economies. On the other hand, business leaders from emerging markets, such as Brazil, have learned hard economic lessons - they lead through change routinely. Matching these leaders from emerging markets who are experienced in economic downturns with the call for leadership needed to handle systemic risk management is the challenge going forward.

Times are tough and people are worried; there is a worldwide lack of confidence in the economy and obtaining credit has become nearly impossible. Further, The World Bank has issued a statement that protectionist sentiments are on the rise. General Electric lost the triple-A credit rating which it proudly held for decades. *The Wall Street Journal* and *Financial Times* report daily about the latest retrenchments and cost reductions in the global financial services industry. These indicators are clear evidence that financial leaders are adopting more and more behaviours associated with a bust leadership style:

During the current crisis, every time news of a big multinational goes bankrupt, much of the media calls for a change in leadership;

Boom Leadership Behaviours	Bust Leadership Behaviours
Increase revenues	Reduce costs
Maximise profits	Conserve resources
Execute expansion strategies	Manage day-to-day activities

linking the failure to the behaviours of the boom leaders and the only way out is to replace these leaders. However, historically speaking, it is unnecessary or even undesirable to change leaders when the economy moves from boom to bubble to bust, as a company stands the best chance to survive and thrive when it is managed by individuals who are most familiar with the company. What is necessary, though, is that leadership behaviours be

adapted to ride the economic wave. The ideal is a leader who could adopt a proactive stance and be able to identify an inflating bubble and react to it before it bursts.

### LEADERSHIP INTUITION

Dimon is a good example of a leader that seems uniquely talented in his ability to predict the bust, and had prepared JPM to manoeuvre quickly, gained consensus of the board of directors, and positioned JPM to acquire Bear Stearns. Largely due to his leadership and in spite of the downturn, JPM reported a 2008 Q4 profit of US\$700 million and a 2009 Q1 profit of US\$2.1 billion. Further, despite the fact that many of the Madoff investment schemes originally had JPM as a sponsor, Dimon cut JPM exposure to Madoff within the months and importantly before the scheme fell apart. As a result, JPM did not suffer any losses due to the Bernie Madoff ponzi investment scandal. Although JPM invented credit default swaps (CDS) in 1997 and remains by far the largest holder of CDS, the forward-looking Dimon disentangled the bank's positions and rebalanced its risks in problematic CDS so that it was ahead of the curve on exposure to the losses incurred by CDS. Dimon also demonstrated leadership and took ownership when he was the only American banking leader to attend the World Economic Forum in Davos in February 2009. At a press conference, he accepted some blame, but also pointed a finger at regulators, "... some really stupid things were done by American banks and by American investment banks... to policy makers I say, where were they?"

James Dimon is just one high-profile example of good, prescient and adaptive leadership. In fact, this paradigm shift in leadership was already underway before the current challenges. A 2007 survey conducted by the Center for Creative Leadership (Andre Martin, "What's Next? The 2007 Changing Nature of Leadership Survey," A CCL Research White Paper, [www.ccl.org](http://www.ccl.org)) indicates that for leaders to be effective in the future, they must adopt a more collaborative style to work across boundaries, be skilled at change leadership, build effective teams and develop others, and find ways to have influence without authority. All of these skills are even more necessary now. Further, CCL identified some shifting trends, such as the mindset shift from viewing leadership as a position to viewing leadership as a process, a shift from focusing on profit to focusing on improvement, defining power not in terms of position but in terms of knowledge, and a reward structure that is less about individual performance and more about the success and development of others.

### CHECKLIST FOR LEADERS

To lead through times of significant turmoil, financial industry leaders should:

1. **Establish deeper partnerships with business schools:** Some of the best thinking on capability building and leadership development is being conceived at the top business schools around the world. Adaptability, velocity, resilience and ambidexterity are some of the hot topics. Companies that adopt

a culture of performance around leadership development that includes the vanguard in academic thinking have been able to attract and retain talent, and this approach is reflected on the balance sheet as a good investment. By forming a closer collaboration with business schools, it will allow the bank or financial institution to better reinforce and sustain the lessons and new habits learned in ongoing leadership training which can then transform a culture of individual reward to a culture of performance based on rewarding collaborative efforts and developing others.

2. **Balance the "3 Es" (Employees, Earnings, Earth):** The next generation of leaders will be more interested in the harmony between valuing employees and stewarding the earth and less interested in earnings. The 3 Es will become the new definition of shareholder value in a company. Therefore leadership must ensure vision and mission statements coincide with this aim.
3. **Drive business value:** The status quo of delivering projects on time and on budget will not be enough anymore. Financial institutions must focus on value. In order to survive and succeed, there must be a *shift from return on investment to return on value*, through adopting value-management best practices.
4. **Embrace compliance activities:** Without a doubt, financial institutions can expect more rigorous government regulations and oversight than existed prior to the global financial crisis. Leaders should prepare their organisations now to support policymakers, and partner with them in drafting

the compliance structures. Managing this relationship will become a new leadership skill that an organisation cannot afford to overlook. &

For further reading:

1. Darrell Rigby, *Winning in Turbulence: Memo to the CEO*. Harvard Business School Press, 2009. [Bain Consultant downturn strategist Darrell Rigby outlines an action plan for making the most of opportunities during a crisis]
2. Ram Charan, *Leadership in the Era of Economic Uncertainty*. McGraw Hill Publishers, 2008. [business phenom Ram Charan focuses on cash flow and cash generation and monitoring daily fluctuations as a through-put strategy for the financial crisis]
3. Robert Bruner & Sean Carr, *The Panic of 1907: Lessons Learned from the Market's Perfect Storm*. Wiley Publishers, 2009. [Academics Bruner & Carr makes the case that the panic of 1907 gave us the FDIC and Federal Reserve, and JP Morgan saved Wall Street's banks in a similar fashion as James Dimon is doing now]
4. Nassim Nicholas Taleb, *The Black Swan: The Impact of the Highly Improbable*. Random House Publishers, 2007. [Taleb outlines how randomness and improbability have huge impacts, and advocates government to own the banks]
5. Joseph Daniel McCool, *Deciding Who Leads*. Davies-Black Publishing, 2008. [Headhunting guru McCool describes the leadership needed for the next generation of talent]

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