

## A Failure of Leadership

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**If the financial sector is to recover from the economic downturn, its leaders need to sharpen up their act**



The past few months have seen significant problems in the financial sectors around the world. The sub-prime mortgage fiasco in the United States has had knock on effects around the world, particularly in the United Kingdom and mainland Europe. It is all well and good to blame financial turbulence on globalisation issues and political instability around the world. However that really is passing the buck. The real issue is that those people who we allow to hold positions of responsibility just need to be better at what they do. In particular they need to be able to operate effectively in a number of critical areas. Failure to do so will undoubtedly result in more financial crises over the next months and years. And the real victim of these crises ultimately is the person in the street whose mortgage payments will increase, whose investments and pension funds will dwindle in value and who will end up paying more tax to help the Government bail out financial institutions who get themselves into trouble due to poor leadership at the top levels.

So what are these crucial leadership areas and is it reasonable to reduce leadership to such simple terms? After all, the past twenty years has seen an explosion in the number of Centres for Leadership Studies around the world particularly in the United Kingdom. The growth of such centres, notably in the Public Sector has been dramatic and there is no doubt a sound fundamental base of knowledge is accruing. However, it is not the gathering and assembling of knowledge that is needed, it is the application of that knowledge, particularly within the financial sector. Like all sectors of business and organisational life, financial institutions are facing significant challenges in the way they operate. We need leaders who are competent and able to take on these challenges.

Globalisation and the internet mean that we do not just have customers and competitors in our own country or indeed continent but we are in a truly global marketplace looking for business from Los Angeles to Tokyo and all points in between. So our first leadership issue is to realise that we are competing for business with every other country in the world and we cannot be complacent or display undue contentment at the way we go about business. The political, social, technological and economic landscape is constantly changing and leaders need to be both fully aware and on top of those changes. Most organisational leaders in the financial sector spend little time upgrading and developing their leadership skills in a conscious way yet anyone in a complex professional context needs to be constantly improving the way they do things. Just ask yourself if you would expose your body to the knife of a surgeon who had not upgraded his professional skills in the past decade?

The second challenge is to realise that it is just getting more difficult to survive in the business world due to

increasing complexity, regulatory issues and the risks of litigation. Whilst our ability to manage financial data in ways to present whatever case we wish seem to increase monthly, the danger is that we lose sight of reality by massaging the figures. The Enrons, Worldcoms and Arthur Andersen's and more recently the Northern Rock and many other mortgage lenders both in the UK and around the world have found that out to their cost and this has affected millions of people around the world. We need leaders who, as Jack Welch has said, face reality as it is, not as they would wish it to be.

The third issue is that we seem to be producing a real morale problem in many financial organisations, particularly in the four main High Street Banks and the Building Society sector. The collapse of Northern Rock has shaken many people in terms of 'safe as houses investments' no longer living up to their name. To what extent Adam Applegarth the former CEO and the board of Northern Rock is responsible for the collapse of their business is open to debate. However, the impact of such situations on staff, its customers, suppliers and the general public must not be underestimated. Stress in the workplace and modern life generally is on the increase as it was in 1980s when Prof Cary Cooper pointed out that the cost of stress related issues to British Industry and Commerce was over 10 times that of industrial disputes. In his book "Stress and Employer Liability" published in 1996 he quotes the Confederation of British Industry's figures related to the annual cost of stress in the workplace as being £1.7 billion due to alcohol and drink related diseases, 8 million working days lost with coronary heart disease and mental health problems costing in excess of £3.7 billion. He suggests that almost all of this cost can be laid at the door of stress in the workplace. It would be interesting to quantify that cost some twelve years later.

People who are well-led handle pressure more effectively, work better in ambiguous and high risk situations and generally add more value to their organisation than those who are poorly led and articulate that fact. We need leaders who can inspire their people to hang in there during the difficult times and Sir Richard Branson is just one example of a leader who has done exactly that. His recent advertisement regarding his intended acquisition of Northern Rock carries with it a degree of credibility that few leaders in the financial sector can match. Although not all Branson's projects are a success the overall impact on public confidence seems to be consistently positive.

Our fourth issue is that the general public is getting increasingly suspicious of the ethics and working practices of many large organisations, particularly in the financial world. Whilst not every financial organisation features rogue traders such as Nick Leeson, there is a feeling that the financial sector sees itself less accountable to its customers relative to other sectors. In particular the recent furore over bank charges has caused outrage in many people who have discovered that over the years they have paid over the odds: unauthorised overdraft charges, the difference in interest and what they pay investors all add to a feeling of mistrust. The time taken for transactions and for cheques to be cleared seem to many to be excessive in this age of instant communication. New technology has not helped matters. Just recently one major High Street bank sent a customer a sharp letter telling them that they were some £11,500 overdrawn when they were in fact £11,500 in credit. Rather a basic error which is inexcusable in this day and age of computerisation.

So to get financial sector get back on track, leaders need to develop a sense of urgency in terms of dealing with a global marketplace, they need to face reality as it is and tune in to the weak signals that show where the financial world is heading, they need to win the hearts and minds of their people and develop loyalty and confidence and they need to be more ethical and transparent in the way they operate.

We still have a tendency to assess leaders on their personal qualities (the cult of personality) as reflected in the media and in some cases to almost raise them on a pedestal as people and personalities rather than assessing their actual leadership performance. The 1990s in particular produced a whole raft of 'celebrity CEOs' such as Jack Welch, Lee Iaccoca and in the UK Richard Branson and Anita Roddick. Not all of these 'leadership icons' turn out to be squeaky clean in terms of the way they do business. It is what leaders actually DO which is important the impact they have on others, particularly those they lead. Perhaps the financial sector could learn an important lesson from the military who are often maligned as being over simplistic in their thinking and prone to black and white solutions for complex problems. General Sir Richard Dannatt, the Chief of the General Staff of the UK has almost defied the Government and the Ministry of Defence by talking openly about the real situations facing our troops in both Iraq and Afghanistan. General Dannatt shows a real grasp of the global situation, is aware of where things are heading, has enormous consideration for his troops and hence their loyalty and is almost certainly trusted by

the public more than any politician.Â Â Leaders in the financial sector could do well to learn from other sectors such as the military who over the centuries have developed outstanding leaders who perform well in troubled times.

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