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Can leadership withstand the ravages of the crisis?

The sudden collapse of Lehman Brothers and the fall of AIG have not just shaken the financial community to its core, which has sent reverberations worldwide, its leaders have also come under fire. But there's more to these highly-publicised institutional collapses than meets the eye, according to Subramanian Rangan, Associate Professor of Strategy and Management at INSEAD.

"The technical aspects of this crisis are inscrutable. And it takes some time; it's like an earthquake. You have to go and find out who's surviving and where was the fault line … Is this tremor done or is there a second shock and a third shock?"

It started with the wrong one

But how did it all go so wrong in the first place? **Hal Gregersen**, INSEAD Affiliate Professor of

Leadership, believes there may not have been a crisis, had more executives, one by one, got it right from the beginning.

His recently-published book *It Starts With One*, co-written with INSEAD professor Stewart Black, is predicated on the ripple effect of change. "You change individuals, you change organisations. You change organisations, you change institutions. You change institutions, you change countries. It takes individual leaders doing things differently, to have potentially even have averted the crisis."

He says many of the senior bank executives did not bother to have their eyes and ears close to the ground — completely missing the obvious economics of overextended mortage loan customers — and as a result, they made very uninformed lending and loan repackaging decisions.

"These executives literally kept themselves so disconnected from reality that, in this case, the change started with one, but the problem was their inability to see the change was the problem. Consider instead what might have happened had those same senior executives interacted, talked with, become part of, and had conversations with real people who lived in very different worlds … it would have likely led them to make very different leadership choices."

The calm after the storm

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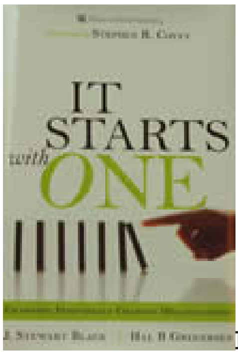
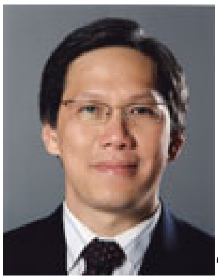


Rangan says, however, that it is time to stop the mudslinging and instead turn the focus on the right individuals who can get their companies back on track.

"I'm sympathetic actually with the policy makers who are in roles of power and authority who feel responsible but don't want to worsen the problem by taking actions just because people say 'act now'. I'm therefore more tolerant of what appears to be not 100 per cent competence, because people need time to figure out what the problem is before they can propose or advance a sensible solution."

The sentiment towards cutting these leaders some slack is shared by **Quy Huy**, Associate Professor of Strategy at INSEAD who is a specialist on collective emotions in organisations, although he adds that it is very much in the hands of leaders to now role model and promote constructive behaviors to turn a crisis into an opportunity for substantial positive change in organisations and societies.


"This is a time of massive collective fear. And we know that in collective fear, people would tend to go back to their past habits…. (to impulsively) sell or buy things that are completely irrational, because fear would make people focus on very narrow things, as opposed to thinking things through and creatively." So leaders have a responsibility to instill collective calm, enabling individuals and organisation to make more thoughtful, creative decisions.

People in leadership positions, he says, are fallible too and therefore prone to the same undesirable reactions as their 'followers', e.g. leading to collective greed and fear that characterise the extreme rises and falls of capital markets and housing prices, for example . However, what makes a leader great is the ability to regulate and control their own emotions and then those of people around them. What they need to focus on now is in genuinely building trust through transparency and consistency between words and actions, which has been missing in the last several years, engendering much mistrust, contempt and anger toward some financial institutions and their leaders. More importantly, they have to generate collective calm conducive to creative reflection and thoughtful action, as opposed to collective panic and fast follow-the-herd instinctual actions. It is precisely in these emotionally volatile and challenging times that leaders show their mettle, or their lack of it.

In addition, according to **Luk Van Wassenhove**, Professor of Operations Management and Director of the INSEAD Social Innovation Centre, good leadership is all about foresight and preparedness.

"You get two types of leaders there. You have the leaders that have a lot of experience, have a lot of gut feel, roll up their sleeves, go in there and start doing things. On the other hand, the better leaders are very often the ones that prepare between crises. So they prepare themselves, they prepare their people, they prepare their organisation so that when a crisis happens, they can react better and in a more organised fashion."

Distributed responsibility

Because we are part of a market that involves capital

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and resources being allocated on a price system, Rangan says it is unreasonable to expect CEOs to not have been guided by prices.

"Prices are the common signal... so we have everybody moving in a certain way until other information comes along. If we expect our chief executives to be with crystal balls and not regard prices as a guide to action, then we're tying their hands. If there is an issue it is with the price information process. This is where the rating agencies come in."

The key, he adds, is to understand that prices too have a sociological component. The price system may have misguided us and the fact is we are all in a way responsible for moving the markets in the direction of where they are today.

"I would rather take time to understand what the problem is and then collectively, creatively and courageously take some action," Rangan says. "This is not a situation of shoot first, then ask questions later."

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