

HANSAR



Executive News

EDITORIAL

Recent events have given everyone plenty of food for thought. We now see that so many of the so-called experts in the world of global business have turned out to be amateurs and innocents, playing with fire and unaware of the potential consequences. As a result a lot of even more innocent people have been badly burned.

It is easy enough to attribute the debacle, like the Prophet Job, to such basic human attributes as greed and hubris. But the surprising thing is the insouciance and inconsequentiality of so many people who contributed to it. Cutting up risk and selling it on may be a clever idea, but nobody seems to have thought of the global implications.

In an issue of the *Hansar Executive News* six years ago, we said that “many of the excesses reported in the US can be attributed to a set of unique circumstances that have developed in an incremental way and have recently burst into full bloom. These include: too much emphasis by Wall Street and institutional investors on the need for CEOs to ‘deliver the goods’ every quarter; too much latitude for corporate leaders; too cosy a relationship between the CEO suite and the auditors; too little control by the shareholder; and too slack corporate governance.”

To bring this statement up-to-date, we should now add to this list the political classes, regulatory agencies, regional authorities, municipalities, and national governments. In the words of a leader in *The Economist* newspaper: “today’s bust – and the bubble that preceded it – had several causes besides dodgy lending, including a tide of cheap money from emerging economies, outdated regulation, government distortions and poor supervision.”

So there is an awful lot of egg on an awful lot of faces. According to ‘The Gambler’s Fallacy’, chance is a self-correcting process, but a lifetime might not be long enough to honour the god of statistics. Maybe all these people believed in chance, but chance is seldom a friend, whereas informed reason is. And it looks as if the real enemy was negligence and a simple lack of foresight...

Whatever happened to responsible leadership?

Six years ago, we wrote in the *Hansar Executive News* that fashion rules as much in management as it does in other walks of life. “Charisma, rated the most valuable attribute in enabling business leaders to respond effectively to [a rapidly changing] business environment, is now very definitely out of fashion. Goodbye charismatic CEO, welcome back Organisation Man?”

At least we can take solace from the fact that we added a question mark at the end. Human history is long enough for us to realise that society has an unfortunate habit of lurching from one extreme to the other. In fact, the world has rarely been more polarised than it is today. And what goes around comes around...

So we might conclude that Organisation Man and Woman, reinforced with the credo of process optimisation, have had their day. Expressed in such terms as ‘deliverables’ and ‘metrics’, accountability is avidly practised within corporations. But what about a corporation’s accountability to the world outside?

We need ‘best practices’ in order to progress, but we now see that best practices are not the long-term answer on their own. Taken to an extreme, they can stifle the best intentions, as a senior underwriter in a mortgage lending operation discovered: “It wasn’t about the quality of the loans; it was about the numbers. They didn’t care if we were giving loans to people that didn’t qualify. Instead, it was how many loans did you get close and fund?”

At the time of that article, we also said that “much of the blame can be laid at the door of the management media, even at some of the business schools, and even at the corporate whiz-kids themselves and their PR advisers.” In the same year of 2002, Federal Reserve

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THE ANSWER, MY FRIEND

"A crisis is an opportunity riding the dangerous wind"

Chinese proverb

WISDOM

"Everything should be made as simple as possible, but not simpler."

Albert Einstein

SO THERE...

"There is no right way to do something wrong."

Anonymous

AMNESIA

"Creditors have better memories than debtors"

Benjamin Franklin

MORE WISDOM

"For myself I am an optimist - it does not seem to be much use being anything else"

Sir Winston Churchill

Board Chairman Alan Greenspan said that "infectious greed" had contaminated US business. Today we can say that the belying-up of the financial world owes as much, in Steve Forbes' words, to the fact that "our central bank behaved like a bartender who continues to ply low- to no-cost booze to already inebriated customers." Such as corporate and retail bankers.

The Age of Unaccountability

So where does this leave corporate management? The gossellers of corporate governance would have us believe that, ultimately, the buck stops with the boss. But is the boss really in charge any longer?

Look at the banking world and you have to conclude that the accountability rested – and rests – with individuals. Recent events at the French banks, Société Générale and Caisse d'Epargne, provide ample evidence of something that is a reality: that, in the fast-moving and entrepreneurial environment of trading desks, there is really little room for corporate governance. The responsibility rests with the individual. Things move so fast that management accountability is almost irrelevant.

In a letter to the editor of *The Economist*, a Swiss banking consultant (no less!) said that: "there are very few examples of leadership or teamwork in the banking world. There are hardly any (good) role models to follow, managers with little experience of management, no loyalty, and no corporate conscience, all of which leads to a lack of collective responsibility."

The scene shifts when you look at the corporate world generally – a world that may have contributed to the present situation because of the corporate money lust that spoke in terms of double-digit returns, IPOs, day trading and stock options...

Here, in the corporate world, the dominant development in recent times has been the emphasis on project teams in all areas of endeavour: R&D, management, strategic planning, etc. Many of the sensitive issues that used to be the domain of top management are now in the hands of people further down the line. And how can top management police the activities of these project teams. They are certainly focused on team performance, but team ethics? And where does this leave corporate governance?

It looks more and more, on recent evidence, as if corporate governance is a chimera. In an increasingly competitive and fast-changing global market – it already was, and will be even more so from now on – responsible leadership is a virtually impossible challenge.

As the saying goes, "when the music plays, you get up and dance." Nobody wants to be a wallflower.

One of the answers to achieving greater corporate responsibility is to open the door wider to those in a company who want to voice their concerns, so that all employees share the task. It sounds like a good idea, but will be difficult to realise because of the uncertainties of human nature.

Another answer – already adopted by some corporations – is to nominate a free spirit at board level to act as the 'corporate conscience'. Again, a good idea, but how does one prevent such a person being suborned by the board?

Balancing integrity with success

So the ultimate responsibility comes back to the CEO, an issue that hangs like the Sword of Damocles over top management today. How do we make leadership more responsible? And what, in future, will be the role of the CEO?

So far, while lip service has been regularly paid to corporate governance, little evidence has been available of its day-to-day application inside companies. Value systems and mission statements take the limelight, often with little substance to support them. It was John Kenneth Galbraith who said that one of man's oldest exercises in moral philosophy has been the search for a superior moral justification for his selfishness.

Much-lauded executive attributes like vision, charisma and leadership skills tend to push personal integrity into the background. Yet integrity is the keystone that holds everything else together. Authenticity in a manager – one of the outward aspects of integrity – is the surest way to win the loyalty of a team. Many senior executives have learned to their cost that, if you don't really believe in what you are saying or doing, then you will never earn the credibility essential to success. People may follow your orders, but not respect you for them.

One aspect of such integrity is personal dedication to the challenge of good governance. Stewardship is ultimately a personal undertaking that demands individual commitment, allied with alertness and an instinct for flushing out the more troublesome features of corporate life. It requires conscience, tact and endurance – all paramount qualities in an effective chief executive.

When all is said and done, personal integrity is perfectly compatible with business success. It just requires a very determined person to make sure it happens.



Is regulation the enemy of entrepreneurship?

Well, many influential voices in the corporate world have been saying that it is, for a long time now. When the Sarbanes-Oxley Act was legislated in 2002, propelled by an earlier wave of corporate scandals, the opponents of the bill claimed it was reducing the US competitive edge against foreign financial service providers and others.

It's normal to point to competition, international or domestic, as the bogeyman. But, if everyone moves in the same direction – as happened in the case of SOX, with Japan and the European Union coming up with something similar in terms of accounting rules – that takes some of the force out of the argument.

It needed shocks like Enron, Tyco, WorldCom and others to jolt the legislators into doing something to curb the excesses. Unfortunately, with the latest debacle, it is evident that they didn't go fast or far enough.

Of course 'healthy competition' is, quite rightly, the lifeblood of the business and financial worlds, even if a lot of undercover work is done to nuance its impact on individual companies. With a culture which draws on wide open spaces and infinite natural resources, the American psyche embraces the concept of doing one's own thing. Unfortunately, as a recent opinion piece in the *International Herald Tribune* pointed out, "The great American ideal of freedom was founded on freedom from accountability."

A Catalan business school professor who works both sides of the 'pond' told us that, where his European students go for a 'safe job' in banking or administration, all

his American students want to become entrepreneurs (a word that, *pace* President Sarkozy, the French invented but don't particularly seem to be seen associated with!).

It is certainly true that 'safe jobs' have traditionally been at a premium amongst young Europeans, particularly in the Latin cultures but also elsewhere: witness the young Austrian university graduate who took out an insurance policy at the age of 21 to finance 'a decent funeral' for himself. He was taking no chances, even beyond the grave!

It remains to be seen whether the current shakeout encourages greater readiness to accept any kind of job, 'safe' or otherwise. In a survey, the French Sofinco consumer credit organisation offered 15-19 year-olds in eight countries four options as "the best way to make money": hard work, taking risks, luck and honesty. The popularity of taking risks took everyone by surprise. While the British kids unexpectedly opted for hard work, and the risk averseness of the French and Italians and Spanish showed up again in the results, the Portuguese (32%), the Dutch (42%) and – oh, surprise! – the Germans (42%) rated taking risks first. But maybe these youngsters will change their minds when they reach a more responsible age. Of course, taking risks is only one aspect of competition, and a healthy one at that as long as the risk applies to the individual concerned and not to society at large.

Entrepreneurship inevitably implies risk, and equality deserves its reward when the decisions are the right ones. But irresponsible entrepreneurship, as we have seen in the banking debacle, has to be curbed by one means or another. So the ultimate question is how to develop regulatory constraints which strike a delicate balance between doing what is right and doing what is wrong. Even more importantly, constraints which do

IGNORANCE IS BLISS

"What we know about the global financial crisis is that we don't know very much."

Paul A. Samuelson, speaking in 1997

FATALISM

"I never think of the future. It comes soon enough."

Albert Einstein

SENSE OF SURVIVAL

"In spite of the cost of living, it's still popular."

Kathleen Norris, American poet and essayist

THE BARD

*"The time is out of joint.
O cursed spite that ever I was
born to set it right!"*

William Shakespeare

STILL LIFE

*"If all economists were laid
end to end, it might be a good
thing"*

Anonymous

Hansar explained

Hansar is a principal supplier of international executive search services to select, multi-national organisations and smaller, entrepreneurial businesses expanding into international markets. Our strategy is to work with one or at the most two companies in each industry segment. In this way we are able to maintain a close working relationship with our clients, sharing in their success and guaranteeing a high level of enthusiasm and pride in the partnership.

Our clients come from selected but diverse sectors in terms of products, services and geography. We are able to transfer our sector knowledge and apply it where there is synergy, giving new blood and creative thinking where appropriate. We focus on senior executive positions within corporate structures.

We have built up a clientele of some of the world's best-known and most prestigious corporations on both sides of the Atlantic, and we have won some of their most important assignments ever awarded.

Hansar has always been involved in transnational executive search assignments. Our strategy has been driven by the obvious need to maintain direct control of all searches, regardless of linguistic and cultural borders. Consequently, we have put together a highly talented core staff who can operate comfortably in any country in the world and deliver a consistently high-quality search service.

A member of AESC, Hansar abides by that organisation's ethical standards and practice guidelines.

The company is headquartered in Brussels. Hansar is a member of the Penrhyn Group with offices on five continents, and is additionally supported by a network of research facilities covering the major business centres of the world.



HANSAR

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not inhibit that most valuable quality, the spirit of entrepreneurialism.

In the words of a *Harvard Business Review* article, "it is society that decrees how much greed is enough – how we define where, say, healthy ambition ends and unsavoury self-interest begins."

For any code of ethics to work, management first has to know to whom it is responsible: its shareholders in the form of the company's quarterly returns, or all its stakeholders, direct or indirect, including society at large. A workable code of ethics has to look for the middle way.

An enforceable code of ethics need not inhibit entrepreneurial creativity, it may promote it. Some cynics even suggest that the introduction of new regulatory constraints will simply encourage entrepreneurs to find more creative ways of circumventing them!

The role of the state

One consequence of recent events is that, whether it wants to or not, the state is going to have to intervene more in the workings of the market. One aspect is regulation, the other is direct intervention in the form of investment by national governments in the private sector. This is not the same thing as nationalisation which, today, sends shivers up the spines of most of the western world.

State involvement is in any case not necessarily a bad thing *per se*. Wisely managed (and why not employ professional managers from the private sector?), it can lead to revenue replacing increased taxes – and who

could argue with that? The evidence globally of recent decisions taken by state-owned sovereign funds suggests that they err on the side of safety: the response of the Gulf States to the financial mayhem in the USA shows that they're not in the business of risk. But here we're talking about investment globally which is riskier than investing on one's own turf...

There are some shining examples of successful state-owned enterprises, many of them active in the strategic sectors of their countries, but just as many that have foundered without trace. France's state railways show what can be achieved with vision and advanced technology, but they also show how such initiatives can involve investment levels that take a long time to pay off.

One of the implicit dangers of state investment in the strategic sector – transport, aviation, defence, and so on – is that these ventures acquire iconic status. The state can be an effective manager in a number of fields, but there's a danger that it will confuse making a profit with flying the flag. This need not be the case in sectors of a less strategic nature than aerospace and defence, as demonstrated by the case of PetroChina which, prior to the global crash, had a market value of more than \$1 trillion!

However, the conventional wisdom – often borne out by the evidence – is that government ownership of companies is inferior to the private initiative. But, like it or not, we're going to see more of the former for some time to come. The inadequacies of the private sector have forced governments, who also bear part of the blame, to get involved, whether they want to or not.



For a reference list of further reading on topics in this issue, please send an email to: marylevy@hansar.com

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