

THE REAL STRESS TEST

Sylvia van de Bunt-Kokhuis

sbunt@feweb.vu.nl

Abstract

The financial crisis has unmasked the greedy and narcissistic leader. Organizations are in need of a new type of leader, driven by motives other than a high salary or exorbitant bonuses; a servant-leader that gives the employees confidence and subsequently empowers the organization. This article outlines some major trends in twenty-first-century organizations where servant-leadership is required, and is completed with a real stress test at the end.

Keywords

Financial crisis, servant-leadership, intrinsic rewards, community building, awareness, talent development.

Recently, the banking industry entered a fundamental reform process after large-scale public failure and bankruptcy. What were the reasons for bank failures? According to the Financial Crisis Inquiry Commission (2011) the financial and economic crisis in the United States was caused by widespread failures in financial regulation, toxic mortgages, too much risk taking not only by financial firms but also by households (homebuyers misguidedly supposed housing prices would always go up) and Wall Street (lack of risk-management processes). Furthermore, key policy makers were ill prepared for the crisis, and the accountability and ethics are at stake at all levels of the financial world. Other factors related to the financial crisis are impression management by investment bankers during the financial crisis (Stanley, Mackenzie Davey and Symon, 2013), and the global macro liquidity policies and poor regulatory framework (Blundell-Wignall, Atkinson and Hoon Lee, 2008). Last but not least, the foundation upon which the banking organization is built seems to collapse too. That foundation was one of greedy leaders, representing a culture of mistrust, self-enrichment and bonuses. The checks and balances were completely lost, as in the case of Lehman Brothers and the ABN Amro bank. Banks are simply squandered by their leaders, as Smit (2008) describes in writing about the decline and fall of ABN Amro, a bank that could only survive through nationalization by the Dutch government.

This toxic leadership has led to public outrage in many parts of the world. Due to the economic crisis there are people laid off and salaries remain low. How is it possible that at the same time CEOs get ever-higher bonuses paid? Twenty years ago, an average American CEO earned forty times as much as a worker of the same company. Now, this has increased to a factor of 400. Overpayment of CEOs cascades down to lower organizational levels. CEOs use their own power to increase their own salaries (Wade, O'Reilly and Pollock, 2006). Driven by financial motives CEOs left their ideals, compromised and put their integrity at stake. Despite the growing public criticism nothing changed quickly in the corporate world. Leaders became nonchalant. They were led by their ego, took great risks to

the community and their organization, but not for themselves. The economic crisis is partly responsible for the unmasking of this act and the reputation damage that the banking industry has to handle.

Though excessive rewards were no exception until recently in Western companies, this is not a phenomenon of all times. In the earlier agricultural society making profit was even viewed with suspicion. The price you paid, or the wages received, covered only the costs incurred. Charging interest was not appropriate.

Worldwide there are divergent views on how to reward employees and how/if charging financial interest is fair trade. In Islamic countries, for example, historically speaking strict rules apply generally in respect of making profit and charging interest. *Sharia* prohibits interest; trading in financial risk-taking is avoided because it is considered a form of gambling. Traditional Islamic law prohibits payment of interest, the so-called *riba*.

The now detested bonus culture has its origins in the materialistic way of thinking in the Western world, dominated by self-regulation and self-interest. Children are raised in an “I” instead of “we” culture. The rationale behind this is that if you pursue self-interest, this also benefits the public interest. The diversity among core values can already be observed among toddlers across cultures. Cross-linguistic differences occur even at this early age in the types of words produced. According to Tardif et al. (2008) Chinese toddlers show more collectivism in their early language than their American peers. The ‘top 10 words’ of Chinese toddlers represent more often relationships (such as being/connecting with family, friends) whereas in the English-speaking group the nouns (subjects, such as spoon, bottle) are more represented (Tardif, 2006).

The major challenge in modern multicultural organizations is to share the best of more worlds. Apparent contradictions such as individual and collectivist expressions are much more interconnected than it may seem at first. As early as the nineteenth century the pioneer Friedrich Wilhelm Raiffeisen applied this principle to the establishment of a cooperative banking community. Raiffeisen was a countryside mayor and is the founding father of a cooperative movement of credit unions. In 1864 he created the first German farmers’ bank. Raiffeisen was confronted with the abject poverty of the farmers and their families. He tried to alleviate this need through a variety of charitable and non-profit activities. Through the cooperative community, Raiffeisen empowered farmers to carry responsibility for their own actions. The self-reliant farmers became aware of their potential for improving their living standards (Blot, 2011). Self-reliance had more potential in the long run than charitable aid. In later years the Rabobank emerged out of this cooperative initiative of Raiffeisen and the Catholic Boerenleenbank. In the Rabobank the interests of the community come first, substantially different from banks listed on the financial stock market. The cooperative bank model assured a tight bond between invested capital and the community.

In line with the cooperative value of the Rabobank is the concept of co-opetition, a combination of competition and cooperation. In Western organizations the primary rewarding and competition is often with the individual. This individual competition may not work in a more collectivist culture of group reward. How can you reward your team (cooperation) and at the same time reconcile this with rewarding individual excellence (competition)? In other words how can you reach the level of co-opetition? Trompenaars and Voerman (2009) show how IBM brings this into practice. A computer salesman can earn a bonus by showing what he or she learned from the customer. Through these presentations, the customer is more satisfied; the sellers themselves learn more from each others’ experiences and in the end the

company sales increase. A striking detail is that the best sellers had learned most from their customers.

A shift in our thinking is needed. This implies amongst other things that we appreciate financially low-paid or unpaid work. Thus, for example, in the care sector, daily care for each other is the basis for each person's healthy social life and working environment. Charles Handy (1976) believes that a CEO is, socially speaking, lonely at the top and leads a meagre existence in essence, compared to people working in the care sector. You could jokingly assert that the reward is so high at the top to compensate for the lack of meaning and social status. In the workplace, for example, a nurse receives a relatively low salary, because in this type of work much warmth and appreciation is already being received. And these warm-hearted rewards are priceless.

What changes have taken place since the bankruptcy of Lehman Brothers and others? A new type of leader is required and in demand, to replace the greedy and narcissistic leader. This new leader is less driven by extrinsic rewards (salary, bonus) and more motivated by intrinsic rewards (recognition, satisfaction). This new type of leadership style cannot be explained by traditional management theory because the new leader goes beyond managing economics, controlling data and rules. And there is more: inspiration, compassion, (self-)confidence, courtesy, passion, comfort and solidarity are just some human behaviour characteristics determining the quality of the twenty-first-century (online) economy. This new type of leadership is also called servant-leadership, is multidimensional and enhances more than ever before the human and ethical factor in organizations.

The concept of servant-leadership includes dynamic dilemmas. Servant-leaders serve their followers with compassion. At the same time servant-leaders are accountable for the performance of their organization, like a company, school, church, or even a nation. Each investment of the servant-leader in the well-being of the other is at the same time an investment for the benefit of the common good. The leader's skills appear in bridging the contrasting dilemmas of leading and serving, courage and caution, control and compassion, power over and commitment to others (Trompenaars and Voerman, 2009). Servant-leadership can be found across modern and ancient cultures such as in India, China or Greece. Thus, for example, Aristotle stated that the essence of life is to serve others and do good (Handy, 1976). Within the concept of servant-leadership, leading and serving are two sides of the same coin. Despite the cultural diversity among people and their talents, there is a common basis, namely, being human. According to Trompenaars and Voerman (2009), servant-leaders are not tempted to make a choice between two opposite (cross-cultural and/or ethical) values. In other words, servant-leaders avoid choosing an unsatisfactory compromise. The servant-leader will choose a solution where both opposing value sets – like love and power – are combined in a dialectic process. Through thesis and antithesis, the servant-leader achieves the synthesis, which enriches the intercultural context of the common good. Managing to reconcile cultural dilemmas is an integral part of this dialectic process. Some major trends in twenty-first-century organizations where servant-leadership is required are:

- *Community building*: To build a vital community, the common interest is prior to financial self-interest. For example, in health care the aim should not be primarily focused on the technical calculation of working hours. Not the management, but the welfare of the client and the community is key. This puts an end to something dreadful such as 'pyjama days' where elderly people receive no daily care because of budget cuts in health care. Giving back value to the community and the society at large manifests social responsibility. In this respect the coaching project Giving Back

(www.givingback.nl) in Amsterdam is worth mentioning. This project offers underprivileged youth in the Amsterdam region a second chance. Youngsters get the opportunity of an internship in a company and coaching is provided by one of the leaders in that company.

- *Awareness*: The leader is aware of the corporate opportunities and employee needs in its environment and is only an interconnecting part of the organization. In an international society, it is important not to think bipolar but multidimensional, reconciling cultural differences. The current digitalization of society is a call on this awareness. Where, for example, is the human touch in the online communication with a patient, pupil, student or client? What are the quality of online information and the potential of social networks? This level of awareness is called “organizational mindfulness” by Ray, Baker and Plowman (2011): leaders pay close attention to what is going on around their organization, they refuse to function on “auto pilot” and have a rich awareness of discriminatory detail. Organizational mindfulness or awareness implies a reluctance to simplify worldviews, information categories and so on. Leaders have sensitivity to operations, a sense for the voice of employees, and are committed to resilience; they have the ability to correct errors quickly, are open for discussion of failures, and can cope with surprises in the moment. Last but not least these leaders respect experience; they use knowledge in the organization regardless of status, tenure or rank of people while recognizing that authority does not equate to experience. It is about making people aware of their passage in human history. As Nelson Mandela (1994) stated, “There is nothing like returning to a place that remains unchanged to find the ways in which you yourself have altered.”
- *Talent development*: The new leader challenges the talents of others, rather than punishing failure. The leader dares to give compliments, is a role model for young people and gives confidence to the next generation. Nelson Mandela and Desmond Tutu are striking examples of how to inspire (young) people. A colleague, teacher, musician or artist can also encourage similar empowerment of talents. How can a leader nurture talent in the organization and ultimately ensure success for the entire organization? It’s about respect for others and creating value. That takes courage. According to Peshawaria (2011) leadership development is key in this process of talent development, helping leaders to find deeper levels of authentic energy to inspire their staff, build trust, create engagement, give hope and help others reach deep within themselves to bring out their best. Peshawaria, commenting on an earlier version of this article, has argued that if a leader is clear about his/her personal purpose and values, such energy is long lasting in an organization. Such leaders will never compromise and, through even the toughest of times, will bring a better future for others and their talents. The focus of leadership development needs to shift away from extrinsic skills and personality make-overs to an intrinsic search for purpose and values. Then hopefully, more servant-leaders will come into being.

The above are just a few trends in leadership where power and bonus are no longer on the top of the business agenda. Further research is needed on how the new servant-leader focuses on talent development and growth of the other, leading to a mindful engagement on the job. He or she is not a holy saint, but acts conscientiously and as a steward for the organization and community at large. It is not just about economic data, but primarily about social and ethical responsibility. To live this mission gives peace of mind to any organization in today’s turbulent times, creating a better future for later generations. The compliance question for

CEOs to ask themselves is: “How can I justify my behaviour to my (grand)children?” This is the real stress test.

References

- Blot, P. de (2011). *Business Spiritualiteit. Een vernieuwingsmodel voor organisaties in een crisis*. Breukelen: Nyenrode Business Universiteit.
- Blundell-Wignall, A., Atkinson, P. and Hoon Lee, S. (2008). *The Current Financial Crisis: Causes and Policy Issues*. Financial Market Trends. OECD.
- Financial Crisis Inquiry Commission (2011). *The Financial Crisis Inquiry Report. Financial Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*. Official Government Edition. Washington D.C.
- Handy, C. (1976). *Understanding Organizations*. London: Penguin Books.
- Mandela, N. R. (1994). *Long Walk to Freedom*. London: Abacus.
- Peshawaria, R. (2011). *Too Many Bosses, Too Few Leaders*. New York: Free Press.
- Ray, L., Baker, L., and Plowman, A. (2011). Organizational mindfulness in business schools, *Academy of Management Learning and Education Journal*, 10(2), 188–203.
- Smit, J. (2008). *De Prooi. Blinde trots breekt ABN Amro*. Amsterdam: Prometheus.
- Stanley, L., Mackenzie Davey, K. and Symon, G. (2013). *I'm not Really a Banker*. Proceedings EURAM 2013 conference, Track: Identity and Organisations: Challenges and Opportunities. Istanbul.
- Tardif, T. (2006). But are they really verbs? Chinese words for action. In Hirsch-Pasek, K. and R. Golinkoff (eds). *When Action Meets Word: How Children Learn Verbs*. Oxford University Press. Part IV, Chapter 18.
- Tardif, T., Fletcher, P., Liang, W., Zhang, Z. and Kaciroti, N. (2008). Baby's first 10 words, *Developmental Psychology*, 44(4), 929–938.
- Trompenaars, F. and Voerman, E. 2009. *Servant-leadership across Cultures*. Oxford: Infinite Ideas.
- Wade, J., O'Reilly, C. and Pollock, Timothy G. (2006). Overpaid CEOs and underpaid managers: Fairness and executive compensation, *Organization Science*, 17(5), 527–544.