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# **Leadership at a Time of Transition and Turbulence - Lecture One Transcript**

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## Leadership at a Time of Transition and Turbulence

by

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Introduction

Good evening ladies and gentlemen. Thank you for taking the time to come here tonight. Welcome to my second series of lectures as Gresham Professor of Commerce.

You may have noticed that I have called this series "conversations". That is because the format will mainly be different from a normal set of lectures. My first contribution tonight will be a conventional lecture, but it will also set the scene for the subsequent contributions, which will indeed be conversations.

Each conversation will begin with an introduction from me, followed by a discussion on the platform with a distinguished guest. We will be privileged because my fellow discussants, in order of the conversations to come, will be John Micklethwait (Editor-in-Chief of the Economist), Sir Peter Sutherland (former chairman of BP) and General Sir Richard Dannatt (former Chief of the General Staff).

Now, in my last series of lectures here I argued that the financial and economic crisis from which we beginning to emerge owed much to a failure of values. By values I mean principles which inform and encourage desirable attitudes and behaviour.

I said that we had divorced economics from the moral and spiritual dimensions of life. Finance became dominated by easy money and "originate and distribute" - disassembling and reassembling financial assets such as mortgages in ever more complex ways and passing the parcel as though production could be separated from responsibility. We allowed the market to become a master instead of a servant and too often finance ignored the silent partner - that great mass of the population who have been profoundly affected by the crisis but had little say in the decisions which precipitated it

Contrary to the views of reductionist market theorists and evolutionary biologists, we are neither rational robots nor mere bundles of animal spirits. We all experience what St Augustine called "the silent clamour of the heart". There is no contradiction between economics and morality. We should resist the claims of alleged "realists" that economic life is somehow ring fenced from the rest of life. It is time for conscience to make a comeback, "to fix the character of our time" as the inscription says on William Wilberforce's statue in Westminster Abbey. We should rediscover the full meaning of what it is to be human.

I suggested that the values informing such an endeavour could be summed up as the Golden Rule, "Do unto others as you would have them do unto you", and I advocated its conscious adoption. The rule is a practical expression of the moral spirit, or the self in action confronting good and evil. There are good and bad ways of thinking and behaving. There are common ways of living that are good for all of us.

Even the most extreme relativist - if that is not a contradiction in terms - does not believe in a complete moral free for all. However deep they may be buried in the contemporary post-modern psyche, we all have some instincts about what is good and bad. Moreover, and crucially, we apply those instincts in a wide variety of situations - not least in recent years to financial institutions and their leaders.

Our reluctance often to face up to our values - embarrassment, even, at using a word such as "values" - has led to an atomisation of ideas and in some profound sense of ourselves. The moral, the social, the financial - my area of professional expertise - are scarcely mentioned in the same breath. One of the key issues I want to explore in this set of conversations, therefore, is how we can recombine the moral, social and the financial into a new language, or perhaps more precisely, a new grammar which is natural, appealing and above all a way of guiding and assessing what we do.

And following on from that, I would like to explore what kinds of actions are consistent with a reunited set of values. Picking up on a theme from my last series, I will argue that a central concept is service. At first sight, this might seem paradoxical when we are talking about leadership. But I maintain that far from being paradoxical or contradictory ideas, leadership and service should be indissoluble facets of the same character. We do not want a society which has one without the other. In fact, my proposition is that true leadership is necessarily an act of service because only service can imbue leadership with legitimacy. The absence of service in this fundamental sense is a powerful reason for the confusion in which we languish today.

Transition and Turbulence

The recent crisis is ample evidence of the urgent need to end the atomisation of values and actions. We came perilously close to financial collapse, an almost unimaginable catastrophe that was supposed to be impossible in the modern world. A symptom of the crisis and how far we had neglected the Golden Rule was the breakdown of trust - between financial institutions which distrusted each other's credit, between finance and the regulators and government, and perhaps most importantly between finance and society. It is hard to exaggerate the

gravity of such a breakdown. Trust is where the moral life and business life meet – potentially to weaken or strengthen each other.

There is some evidence of changed attitudes. Basel III, the international regulatory agreement intended to ensure that banks are better capitalised, is grappling with a more prudent attitude towards risk. But we have a long way to go before confidence can be fully restored to the financial system – and that confidence includes regaining the trust of a public which in quite a few countries is paying a high price for rescuing the system. We have not really even begun to address the fundamental question of collective and individual behaviour as it affects finance and the values underlying it. We should not delude ourselves that trust remains anything but fragile. We are certainly not out of the woods yet, as the Irish crisis reminds us.

I therefore doubt that anyone here today will reject the general idea that we live in a time of transition and turbulence. I also doubt that anyone will seriously challenge the fundamental importance of leadership in these circumstances. Restoring trust and finding the new language of the moral spirit will not happen by itself. Active intervention is required – and that means leadership – to build into our business and (as it were) secular lives the kind of values we want and admire. We must shape or be shaped. As it says in the Book of Proverbs: “Where there is no vision, the people perish” (Proverbs 29:18).

Of course, that does not take us very far. The “general idea” that we live in a time of transition and turbulence needs flesh on its bones. I appreciate that transition is a readily abused word. Obviously, in a sense humans have always been in a time of transition – and we certainly have been since the Industrial Revolution accustomed us to material and social advancement, loosely termed progress, as the natural order of things. Transition is rather like those middle classes we encountered in our history lessons who were always rising.

But some periods do turn out to be the move from one set of attitudes and practices to another set. This is what I mean by transition. Such periods often follow crises, ranging from the Black Death to the First World War. They lead to another state of mind, not just a new political order – a future critically different from that previously envisaged.

I believe we are in such a period. Our times are the aftermath of the most serious financial crisis since 1929. We cannot – or we certainly should not – go through a crisis of this magnitude without deep soul-searching. By definition, something went very wrong and we do not want to repeat it.

And what about turbulence? The turbulence we are still experiencing is much more than the financial crisis and its causes and consequences, disruptive as they are. The transition we must undergo promises to be difficult because there are other kinds of turbulence beneath, and contributing to, the financial one. The “macropolitical environment”, a complex interaction between economic, social and political forces, is unusually opaque.

Moreover, the mix is highly volatile and unpredictable. New technologies generate immense amounts of information with almost instant global impact. Caught in a 24-hour news cycle, events occur at great speed. Leaders face relentless short-term pressures which too easily compromise long-term solutions. Quarterly company reporting is a commonly cited example in business. Leaders also need finely honed political skills to deal with often conflicting demands around the world. To take a business example again, companies today face a barrage of regulatory requirements across the globe. As a client said to me recently, he could not remember so confusing a time.

I do not think he is alone. For many people, it is as though a vengeful demon has randomly spun the signposts round and then dug up the road for good measure. The direction is unclear and the terrain rough. Nevertheless, allow me to suggest three causes of confusion which seem to be particularly potent.

The first is an epochal shift in economic and political power from west to east, an indication of which was that the crisis was made here, in London and New York, not there in Mumbai and Shanghai. Chinese leaders refer to the “North Atlantic crisis” with good reason. This shift is long-term, but it is seismic. And rather like colliding tectonic plates, China’s rise implies America’s relative decline and possible earthquakes such as trade and currency wars. Europe is caught somewhere in the middle.

At the very least, I have been struck on recent visits to America by the country’s apparent loss of confidence in itself. It seems to me that many – including Americans – are questioning whether the American dream is still alive and whether the country has any more the resilience and strength to pull through this crisis. Confidence in America is not just a matter of mood. It deeply influences global investment and growth and therefore underlines the importance of positive leadership. The impression that America is faltering may be misleading, as it has been previously. But it is a reasonable assumption that power will become more dispersed around the world, placing even more of a premium on leadership.

The second trend I would like to mention is a sharpening contest of beliefs both between religions, for example Islam and Christianity, and between belief and secularism. I think we can stir spiritual turbulence into the cauldron along with the more familiar ingredients. But I do not subscribe to a “clash of civilisations” because I do not believe that the majority of Moslems and the majority of Christians are ill-disposed towards each other. Moreover, competition between faiths is occurring within a longer-term trend of a rise of faith generally around the world. Contrary to commonly held assumptions, this century will be a century of faith, not of an irresistible advance of secularism.

The rise of faith is a source of those values and the context in which we search for our new grammar of values. Here the moving force will be intellectual leadership, perhaps from an unexpected source.

My third trend is technological turbulence, which shows no sign of abating as the pace of innovation accelerates. We are all grappling with the digital revolution. One arresting summation is that the three most populous nations are China, India – and Facebook with its 500 million users. Another is the recent report by the Boston Consulting Group which estimated that the income generated through the internet in the UK was £100 billion in 2009. At 7 percent of GDP, that approaches the financial services sector and may well soon overtake it.

But the digital revolution is only a small part of the extraordinary explosion in scientific discovery and inventiveness. From nano-technology – the science of the very small – to cosmology – the science of the very big – our understanding of our world is being challenged as never before.

And the social implications are far-reaching. Generation Y, the internet generation born between the 1970s and the end of the last century, has seen the planet shrink. Armed with the astonishing power of the internet, it expects a previously unheard of degree of transparency for those in authority. Yet Generation Y is also less materialistic than its predecessor Generation X, more collegial, less cynical and more interested in the search of fulfilment, including spiritual fulfilment. It works to live rather than lives to work. In this Wikiworld of the intellectually rootless, where the wares offered in the souk of ideas are all given equal weight, and authority is automatically suspect, moral leadership is a rarity. Too often we are long on knowledge and short on wisdom.

### Searching for stability

The picture I have painted is one of instability. Turbulence is for practical purposes synonymous with instability, which I presume is the opposite of the state we want to be in. But given the nature of the great forces I have sketched out, we may have to live with turbulence for a long time. It is certainly unpredictable. I have no idea whether China will be the world's superpower in 2110. The point, however, is to learn to navigate through the turbulence. We should not become bogged down in predictions but decide where we want to go, what sort of world we want. We need to be equipped to deal with the unexpected. The journey from here to there is the terrain of leadership.

I presume we want the journey to take us from an unstable to a stable state of affairs if possible. By stability I do not mean a utopian perfect harmony but merely a reasonable way, in which people have confidence, of dealing with the world. In systems theory, a stable state is one in which a system's components produce positive feedback and so reinforce each other. I hardly need say that the state from which we are emerging was rather short of positive feedback.

You cannot find a starker example of negative feedback than the credit crunch, when the interbank market froze because of the collapse of trust in the creditworthiness of institutions and the economy nearly froze with it. Human society, of course, is not a sort of electronic system (from which the term feedback originated). It is uniquely complex because we are sentient, moral beings. But the same principle applies in some measure, which prompts the thought that the confusion of values in contemporary society is one cause of weak positive feedback.

However, I want to spell out this about the financial crisis: capitalism did not fail. Rather, as I argued in my previous lectures, the principles which make capitalism so powerful a moral force were neglected: rewards were not based on genuine risk; equity was neglected in favour of perverse ingenuity; short-termism prevailed, measured by shareholder impatience for returns and the brief tenure of CEOs – on average about three years for a FTSE100 company; and above all, the concept of service was impoverished. I do not believe that these shortcomings are inevitable and it is important to remember that capitalism has no rival in its capacity to create wealth and reduce poverty. Helping to improve the living standards of the billion or so people who live on \$1 a day is surely a moral undertaking.

If finance has one purpose, it is to oil the wheels of the real economy, not to be an end in itself, to “make money from money”. But we appear to have lost any sense of finance as a service. A service involves deep respect for the long-term interests of stakeholders such as clients and employees, and society as a whole, as well as shareholders. Unfortunately, it was too tempting to ignore these principles in times of plenty. Irrational exuberance held finance in thrall. Market participants surrendered to the less attractive of their animal spirits and stampeded towards ever more exotic risk-taking. Few voices were raised against the din of the herd. Leadership was woefully lacking.

Now we are in much less exuberant times. But, as I have said, they remain perplexing times pregnant with danger. In such times, the consensus is not good enough – certainly not a narrow, impoverished consensus based on regulation to prevent excess. Problems of this magnitude are solved by people thinking and acting differently, people who can see through the turbulence to what kind of transition is required and where it should take us. How then can we define the leadership I have advocated?

### Leadership

Leadership falls firmly into the category of things which are hard to describe – like love, truth, justice or an

elephant. Nevertheless, what we sense in true leaders can be summarised like this: a successful leader is someone who can get a group to achieve an objective, quite possibly an objective which they did not think they could reach or even know they wanted to reach. Real leaders do not just tell people what to do. They have a vision, they know how to persuade people to share that vision, and they know how to fulfil that vision. Their innate conviction becomes our innate conviction. Leaders can get us to buy into something which is bigger than ourselves and in the process change ourselves – and probably themselves too. They take the facts and invest in them a new meaning which offers a way forward.

To take some arbitrary examples of leaders from across cultures: Qin Shi Huang, who unified China, became the first emperor in 221 BC, and started building the Great Wall; Martin Luther defying established authority by nailing his theses to the door of All Saints' church in Wittenberg; Sir Winston Churchill, who made the very audacious and risky decision to continue to fight the war when the odds against survival appeared overwhelming. These are Great Men, with a capital "G" and a capital "M". But modern research paints a much richer and more nuanced picture than this conventional idea of the Great Man might suggest. Current thinking is that leaders have certain personality traits in common: intelligence, ability to adjust, openness to experience, integrity, self-confidence, conscientiousness, persistence. More recent research has highlighted attributes such as social skills, expertise, problem-solving skills, motives and values. Successful leaders integrate these traits and attributes to be as effective as possible in given circumstances. What matters is the whole character.

The significance of a more integrated definition of leadership is that it can occur at all levels in an organisation, in all walks of life. Indeed, it is necessary at all levels. We saw this recently in Luis Urzua, the foreman in the collapsed San Jose mine in Chile, whose leadership is credited with keeping his 32 men alive underground for 17 days before rescuers found them. The inquest into the 7/7 attacks in London has revealed numerous acts of leadership – not just bravery – by ordinary men and women. Without their initiative, the horror might have been even worse. They showed that leadership is more than just courage, although the two often go together.

Deeds of this sort by ordinary men and women challenge the age-old conviction that leadership is a mysterious, innate quality. If leadership is exclusively innate, how come different people exhibit the quality at different times? A leader in one situation may not make a leader in another. As a businessman, I know success in business does not automatically mean success in government. Similarly, warlords also make poor politicians. Ghengis Khan brutally conquered much of Asia but his empire barely outlived him. The whole idea of men becoming great because they are born leaders should be treated with circumspection.

Moreover, leaders need followers. You cannot have one without the other. A leader without followers merely holds a position, and a pretty feeble one at that.

The leader may be the difference between triumph and disaster, but the followers certainly do a lot of the work. Caesar would never have been Caesar without a loyal army; Bill Gates would never have built Microsoft into a globally dominant corporation without legions of geeks. If a leader's promises go unfulfilled the followers will inevitably stop following, although in extreme cases only after much blood has been shed.

And leadership is qualified in another way. Informal structures of hierarchy often overlay formal structures which provide individuals with security, protection, community and above all information. Never dismiss the value of gossip! We all know that there is official way of doing things and an unofficial way – which is often more efficient. These informal structures in organisations – the army, companies, government – are serious constraints on the authority of leaders. As any CEO worth his or her salt should know, dictatorially minded corporate executives who ignore the culture of a business, for example after a takeover, risk destroying the asset they prized.

The way people become leaders is also telling. In many organisations, not least business, people climb the greasy pole by understanding how to command the organisation's resources. For them, playing the game is key to advancement.

But occupying a top management position does not make you a leader. It only gives you a position. In academic parlance, managers are transactional and leaders are transformational. The former implement procedures; the latter change procedures. It is the difference between arranging for a ladder to put up against a wall and ordering it to be put up because you have a vision of what is over the wall.

We can see a common thread here. It is that leadership is about being responsible. The morality of a leader influences followers and outcomes. The potentially undemocratic nature of leadership can be redeemed by the leader's values and behaviour, and above all by achievements which followers see as beneficial to them. We must see the leader as servant. He or she is a steward of the community's interest.

### The servant leader

Why a servant? The basic answer is that all good leaders have in some sense been servants. Princes, public officials, generals and captains of industry have been called servants of the people when they have been seen to act overall in the interests of their followers, the more so when they aspired to act in this way. Advancing the interests of their followers and charges is what justifies the epithet "great".

Society acknowledges this in practice. Corporate managers are legally and theoretically the agents of the

shareholders. Generals place great store by the welfare of their troops. Religious leaders have certainly regarded themselves as serving their flock. The integration of leader and servant is a profoundly Christian idea, though it can also be found in other faiths such as Buddhism, which is why the language of leadership has a religious ring. The leader as servant, as deriving his legitimacy from the people, is a tried and tested model.

The more immediate answer is that the leader as servant is what our times need. Democracy, transparency, the technological revolution exemplified by the internet, superior education, greater and growing prosperity make command and control styles of leadership almost impossible and certainly destructive.

There is a grim logic to North Korea being the self-isolated, militarised, impoverished place that it is. Deference will no longer do.

Successful leaders today – leaders of the sort who can effect the transition from turbulence to stability – must be imbued with qualities which in earlier times might have been regarded as handicaps: understanding how to cooperate with others; emotional intelligence; trustworthiness; and values which are admired and accepted.

A contemporary leader understands the power of incentives and motivation. Modern followers will not follow unless they know how they will benefit and agree that the cost of transition is worth paying. This is the vital sense in which the leader is servant. He may have the vision, may know how to make the transition, but he also knows that the group has to share that vision and the values underpinning it. As Mahatma Gandhi once remarked: “I suppose leadership at one time meant muscles; but today it means getting along with people.”

Communication has become critical. The gift of communication has always been a hallmark of leadership. But it has never been more valuable than in this media age of blogs, viral fires, aggressive websites, and anonymous rumour mongering and political exploitation of the mood which the media storm shapes in the global village. BP learned that lesson the hard way when the recent Gulf of Mexico disaster came within a whisker of destroying the company.

The modern concept of the servant leader was developed in the latter part of the twentieth century by Robert K. Greenleaf, the American thinker on ethics and organizations. Drawing on his experience of top-down leadership in American corporate life, Greenleaf argued that the servant leader serves the people he or she leads. Coercive leadership is not just comparatively ineffective. Crucially, it lacks the moral authority which comes from the consent of the followers. The implication for a company is that employees are an end in themselves – not simply a means to an end, like the bottom line. Servant-leaders are often seen as stewards of their organization’s resources (human, financial and physical).

Greenleaf’s moral test of the servant-leader was whether those served grew as people. In his seminal work, *Servant leadership: A journey into the nature of legitimate power and greatness*, Greenleaf put the moral test like this: “Do those served grow as persons? Do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society? Will they benefit or at least not be further deprived?”

To meet that test, servant-leaders must behave in certain ways:

- They focus on meeting the needs of those they lead
- They develop employees to bring out the best in them
- They coach others and encourage their self expression
- They facilitate personal growth in all who work with them
- They listen and build a sense of community.

This is a powerful code of conduct. By adhering to it, the greatest of leaders are the greatest of servants. Take Moses, who led the Hebrew slaves out of Egypt and received the Ten Commandments. The book of Numbers comments that he was “the most humble person on the face of the earth” (Numbers 12:3). In leading the Israelites, Moses was serving them.

Jesus of Nazareth preached and embodied servant leadership. In the Bible we read him as saying: “I am among you as one who serves” (Luke 22:27). And: “For he who is least among you all – he is the greatest” (Luke 9:48).

Consider also Gandhi, whose leadership of the Indian independence movement derived from the moral authority of his teaching and practice of material simplicity and non-violence. Gandhi embodied servant leadership. He was motivated, not by a desire to control others, but by a desire to help them realize their dignity and power. Gandhi dedicated himself to achieving a better life for the downtrodden. To quote him again: “The best way to find yourself is to lose yourself in the service of others.”

I know that many dismiss the idea of the servant-leader as hopelessly unrealistic. But remember where we started this evening. The financial crisis erupted precisely because finance forgot or ignored its duty to be a servant – a duty owed to a wider community by virtue of a shared humanity. Which is “unrealistic”?

And I would press the case in the political sphere too. The state’s *raison d’être* is to serve the people who created it by trusting it to govern. The paramount function of, and justification for, the state is its duty to maintain law and order so people can live securely. The state does not exist to be served or deified. Its purpose is to empower and to liberate from the tyranny of anarchy. The officially atheist former Soviet Union substituted

the state for religion. The state, represented by a party which purported to be the vehicle of historical inevitability, absorbed God. We all know what happened.

## Stewardship

The message is that we urgently need to rediscover the service ethic. Servant leadership is ultimately the strongest form of leadership. Leaders per se can only command. Their power basically rests on the structures of coercion that can enforce their commands. Servant leaders, in contrast, can appeal to those they lead, winning their assent and their hearts, rather than coercing their allegiance. In so doing, they can win the loyalty of their followers, motivate them more effectively and retain their trust in difficult times.

Just as we do not want or need top-down leadership we do not want or need morally-neutral, pseudo-scientific "change management", to use consultant-speak. Change management treats shareholders, for example, as a focus group. It is a variety of consensus leadership which leads to the sort of paralysis which seems to have gripped Japan for the last decade or more. Rather must bring a new sense of values to the conduct of capitalism. Its priority will be to restore the moral spirit necessary to the legitimacy and potency of capitalism as a force for improving the human condition.

I believe that the core value we are seeking to represent the moral spirit, the self in action, is stewardship. The good steward is a servant in the sense that he keeps in good order for the future the assets which others place in his charge. But he is also a leader in the sense that, by carrying out his responsibilities well, he shapes the future so that he and others benefit.

We can therefore see three elements to good stewardship: influence, affluence and confluence.

- First, influence. The steward manages networks of resources and information through which he effects change. In the digital age, managing messages to garner support is a prime instance of positive feedback. One party – the steward – may take the initiative, but it only works if the exercise of influence is a two-way street in which all parties see gains. The more stewardship reinforces positive networks the greater the gain and the more successful the steward. It is hardly surprising that companies have been moving in this direction, away from command and control.
- Second, affluence. Good stewardship, as in the Biblical parable, is rewarded by material affluence. As I have argued, capitalism has the capacity to be an unsurpassed creator of affluence – provided we heed the parable, set aside for the future and eschew the temptations of the short term. Our difficulties with the environment, debt and social divisions indicate that we have not exactly wallowed in a surfeit of stewardship. But when I referred to gain a minute ago I did not have only material affluence in mind. With stewardship comes moral affluence – the affluence of a richness of spirit flowing from a constructive reciprocity between the present and the future, the leader and the followers, the self and the still, quiet voice of the conscience.
- Third, confluence. Leadership is about bringing people together – to fight a battle, to market a debt issue, even to hold a lecture. People cooperate on the task in hand, whether physically in a room or virtually through communications, because they see their interests converging. In a broader way, however, the good steward also helps to forge a different moral climate, a climate in which the moral spirit flourishes – what I called earlier "another state of mind". Confluence does not mean we all become identical like members of a sect. It does mean that the obstacles to achievements physical and moral are reduced. To that extent, it allows us to grow as people.

## Conclusion

Ladies and gentlemen, the times are turbulent and the transition uncertain. My thesis is that the idea of the good steward contains much of what we need to navigate on this journey. In politics and business, for example, the leader has to maintain growth while cutting costs.

But stewardship is not merely instrumental. Allow me to conclude with this thought. The leader as servant allows for a new moral grammar: simple, powerful and appealing. It combines the practical and the moral in a concept which is familiar, if neglected, yet cuts through the prevailing confusion. Stewardship is the language of a new stability, a language which captures the moral, spiritual and financial dimensions of life.

For that must be the object of the transition leadership brings about. We will not escape turbulence unless and until capitalism has been imbued with a new sense of moral purpose based on values which are incontrovertible, accepted and effective as a force for good. The full significance of such leadership is that it requires a resurrection of the moral spirit in all of us, followers as well as leaders. The leader as servant embodies that moral spirit. And we can all be good stewards.

Let me end with an image of geese flying in formation over great distances. They have three remarkable qualities, as Bruce Larson points out in his book *Wind and Fire*;

"First, they rotate leadership. No one bird stays out in front all the time. Second, they choose leaders who can handle the turbulence. And then, all during the time one bird is leading, the rest are honking their affirmation."  
Thank you very much.

