

HELLENIC SOCIETY OF CHIEF EXECUTIVE OFFICERS

ANNUAL CONFERENCE 2010

“Microtrends-Megaresults”

OUTLINE

ADDRESS BY PROFESSOR JOSEPH L. BADARACCO

Not for reproduction in any form without the permission of Joseph L. Badaracco.

## INTRODUCTION

THIS IS A HISTORIC MOMENT, FOR GREECE AND THE US AND THE WORLD – YOUR PRESIDENT HAS SAID GREECE IS FACING AN ABYSS – EIGHTEEN MONTHS AGO, JUST AS HARVARD BUSINESS SCHOOL WAS ABOUT TO CELEBRATE ITS 100<sup>TH</sup> ANNIVERSARY, THE US FINANCIAL SYSTEM CAME WITHIN INCHES OF COLLAPSING – THIS IS A DEFINING MOMENT FOR YOU, YOUR COUNTRY, MY COUNTRY AND ITS BUSINESS LEADERS, AND FOR THE WORLD

SO EVERYONE IS LOOKING HARD FOR LESSONS ABOUT LEADERSHIP THAT WILL AVOID DANGERS AND MOVE COUNTRIES AND COMPANIES FORWARD

THIS RESPONSIBILITY FALLS, IN PART, ON YOUR SHOULDERS – THIS IS BECAUSE BUSINESS IS THE MOST DYNAMIC FORCE IN SOCIETY – IT IS TECHNOLOGY, MARKETS, MANAGEMENT THAT HAVE MOVED US OFF MUD FLOORS

BUT I'M NOT GOING TO OFFER YOU LESSONS TODAY – I WANT TO TAKE A DIFFERENT APPROACH

AT HBS WE DON'T GIVE ANSWERS – THE WORLD IS TOO VARIED – AND WE HAVE TOO MUCH RESPECT FOR MANAGERS – INSTEAD WE ASK QUESTIONS – TODAY I WILL ASK YOU 8 QUESTIONS – SOME OF THEM HAVE ALWAYS IMPORTANT BUT, RIGHT NOW, ALL OF THEM, I BELIEVE, ARE ACUTELY IMPORTANT - I REALIZE I AM AN OUTSIDER BUT BUT I HAVE PLENTY OF EXPERIENCE FROM US – 911, INTERNET BUBBLE, GLOBAL FINANCIAL CRISIS, HBS AND HARVARD, AND CASE STUDIES OF COMPANIES FACING CHALLENGES OF ALL KINDS

MY AIM IS TO BE AS USEFUL AND PRACTICAL AS POSSIBLE – BY CHALLENGING YOU WITH QUESTIONS, JUST AS IF YOU WERE PARTICIPATING IN A CLASS AT HARVARD BUSINESS SCHOOL – WE USE THE CASE METHOD – WHICH REALLY SHOULD BE CALLED THE DISCUSSION METHOD – STUDENTS READ A CASE STUDY AND PROFESSORS LEAD DISCUSSIONS OF IT – TODAY'S CASE IS THE UNCERTAIN DANGEROUS WORLD, FACING YOU AND FACING BUSINESS LEADERS LITERALLY AROUND THE WORLD

I ALSO HOPE YOU WILL FOLLOW MY EXAMPLE AND TAKE THESE QUESTIONS BACK TO YOUR COMPANIES AND LEAD DISCUSSIONS OF THEM WITH YOUR MANAGEMENT TEAM

## 1. DO WE REALLY GET IT?

DO YOU AND YOUR LEADERSHIP TEAM REALLY GRASP WHAT'S GOING ON?

I DON'T MEAN FOR A MOMENT THAT YOU ARE UNAWARE OF THE DRAMATIC EVENTS UNFOLDING IN YOUR COUNTRY AND IN EUROPE AND THEIR IMPACT ON YOUR BUSINESSES

BUT IT WOULD BE EASY TO FOCUS SOLELY ON GREEK DEBT OR GERMANY'S AGENDA OR WORLD FINANCIAL MARKETS

I BELIEVE THESE ARE SIMPLY THE MOST CONSPICUOUS PART OF A MUCH LARGER DEVELOPMENT – WE HAVE BEEN MOVING INTO A NEW PHASE OF CAPITALISM, THAT CHALLENGE LEADERS FOR DECADES TO COME – LONG AFTER THE CURRENT CRISIS IS OVER

THE GREAT AUSTRIAN ECONOMIST JOSEPH SCHUMPETER SAID CAPITALISM WAS A GALE OF CREATIVE DESTRUCTION – NOW THAT GALE IS BLOWING HARDER AND HARDER

AS A RESULT, NO LEADER AND NO BUSINESS IS, CALAMITIES GROWING LARGER, DESPITE EFFORTS TO CONTAIN THEM BY GOVERNMENTS AND PRUDENT ACTORS – OLD STRUCTURES AND OLD IDEA NO LONGER WORKING

THERE ARE TWO BASIC FEATURES OF THIS NEW WORLD

FIRST, ALMOST EVERYTHING IS NOW THE PLAYTHING OF POWERFUL MARKET FORCES – IN THAT SENSE, KARL MARX WAS RIGHT – THE MOST VIVID EXAMPLE IS THE GLOBAL BOND MARKET – DESCRIBED AS A DANGER WOUNDED ANIMAL

THESE MARKET FORCES DON'T CARE ABOUT COMPANIES, INDUSTRIES, COUNTRIES – NO MORE THAN A CYCLONE OR HURRICANE – THEY DON'T CARE ABOUT YOU OR YOUR COMPANY OR THE PEOPLE WHO WORK FOR YOU

SECOND, ALMOST EVERYTHING IS DEEPLY INTERCONNECTED – BY THE UBIQUITOUS INTERNET, BY PHYSICAL LINKS LIKE INFRASTRUCTURE AND LONG SUPPLY CHAINS, BY FINANCIAL MARKETS, AND BY THE CONTAGION OF IDEAS – IN THE US, TWO YEARS AGO, NO ONE COULD IMAGINE HOUSING PRICES FALLING SIGNIFICANTLY – NOW NO ONE CAN IMAGINE THEM RISING SIGNIFICANTLY – THIS IS A WORLD OF KALEIDOSCOPIC INTERPRETATIONS THAT CAN SHIFT SIGNIFICANTLY OVERNIGHT

IN THIS WORLD, SMALL THINGS MATTER ENORMOUSLY - GREECE IS AN EXAMPLE: "It will strike some as mystifying that a small, peripheral economy should suddenly threaten the world's biggest economic area. Yet, though it is only 2.6% of euro-zone GDP, Greece sounds three warnings hat reach far beyond its borders." (THE ECONOMIST)

THE PROBLEM THIS CREATES FOR MANAGERS IS ALMOST IMPENETRABLE COMPLEXITY AND UNCERTAINTY

IT WOULD TAKE ME 10 MINUTES TO GIVE YOU A SIMPLE DESCRIPTION OF A SIMPLE CDO – THEN WHAT ABOUT CDO'S SQUARED OR SYNTHETI CDO'S

CARS ARE THE SAME – TOYOTA – 19,000 PARTS IN A CAR, MANY SOFTWARE

NO ONE REALLY UNDERSTANDS TOYOTA'S ACCELERATION PROBLEM. THAT IS NOT JUST MY VIEW, BUT THAT OF RICK WAGONER, THE FORMER GM CEO, I SPOKE WITH A FEW WEEKS AGO. IS THE PROBLEM MECHANICAL OR ELECTRONIC – OR SOME SUBTLE INTERACTION BETWEEN THEM. OR IS IT AN INTERACTION INVOLVING THE BRAKING SYSTEM AND ELDERLY DRIVERS?

THE WORLD IS NOW LIVING THROUGH A PAINFUL, NEARLY CATASTROPHIC EXAMPLE OF THIS LESSON. ALMOST NO ONE SAW THE GLOBAL FINANCIAL CRISIS COMING. A VERY READABLE BOOK, *THE BIG SHORT* BY MICHAEL LEWIS, DESCRIBES A TINY HANDFUL OF INDIVIDUALS WHO SAW A LIKELY COLLAPSE IN U.S. REAL ESTATE PRICES AND ACTUALLY INVESTED ACCORDINGLY. BUT WHO DIDN'T SEE WHAT THEY SAW? ALAN GREENSPAN, THE WIDELY REVERED HEAD OF THE U.S. FEDERAL RESERVE. BEN BERANKE, HIS SUCCESSOR. AND THE HEADS OF EVERY MAJOR FINANCIAL INSTITUTION, ENDOWMENT, AND INVESTMENT FUND IN THE WORLD

INSTEAD, THEY KIDDED THEMSELVES. THEY BELIEVED THE WORLD HAD BECOME LESS RISKY – BECAUSE NEW, COMPLEX SECURITIES LIKE COLLATERALIZED DEBT OBLIGATIONS – HAD CHOPPED RISK UP INTO LITTLE PIECES AND DISTRIBUTED IT AROUND THE WORLD, TO SOPHISTICATED INVESTORS. AND, IN A LESS RISKY WORLD, THEY COULD TAKE ON EVEN MORE DEBT.

WHAT WAS THE REALITY? YOU KNOW THE ANSWER. RISK WASN'T DISTRIBUTED. INSTEAD, THE NEW INSTRUMENTS INTENSIFIED RISK – BECAUSE A DECLINE IN REAL ESTATE PRICES TRIGGERED A LONG CHAIN OF EVENTS.

VIRTUALLY NO ONE SAW THIS COMING. AND WHAT DOES "THIS" REFER TO? THE ANSWER IS SIMPLE AND IT WAS A LITTLE THING, AT LEAST IN STATISTICAL TERMS. IT WAS AN UNLIKELY EVENT, AN EXTREMELY LOW PROBABILITY EVENT, AND EVENT THAT WAS JUST A DOT AT THE TAIL END OF THE DISTRIBUTION OF POSSIBILITIES. PUT DIFFERENTLY, IT WAS A BLACK SWAN. A SMALL THING SO RARE THAT NO ONE REALLY HAD TO PAY ATTENTION TO IT. AND YET THIS SMALL, IMPROBABLY UNLIKELY THING TRIGGERED A CHAIN OF EVENTS THAT NEARLY PLUNGED THE WORLD INTO ANOTHER DEPRESSION

AND SOMETHING LIKE IT WILL PROBABLY HAPPEN AGAIN AND WE WON'T SEE IT AHEAD OF TIME AND IT WILL BE VERY DANGEROUS  
RIGHT NOW, EVERYONE IN EUROPE IS RELAXING A LITTLE BECAUSE OF THE TRILLION-DOLLAR SUPPORT PACKAGE DEVELOPED LAST WEEK END – I SHOULD REMIND YOU THAT EVERYONE RELAXED IN MARCH OF 2008, AFTER BEAR STEARNS ALMOST COLLAPSE AND WAS BOUGHT BY JP MORGAN – THEN, SIX MONTHS LATER, THE WORLD ALMOST FELL APART

CAN WE RELAX NOW? – THE WORLD HAS TOO MUCH DEBT AND IT WILL TAKE YEARS TO PAY IT OFF – AT BEST, THESE WILL BE YEARS OF VERY SLOW GROWTH, PROBABLY GROWING UNEMPLOYMENT, AND NERVOUS CREDITORS, WHO CAN CREATE PANICS IF THEY GROW FEARFUL, WHICH SEEMS TO HAPPEN EVERY FEW MONTHS

ONLY THE BROAD PATTERN IS CLEAR – SEVEN MAJOR FINANCIAL CRISES IN THE US IN THE LAST TWENTY YEARS, EACH WORSE THAN THE OTHER

AS A RESULT – YOU KNOW MUCH LESS THAN YOU THINK YOU DO – YOU UNDERSTAND MUCH LESS THAN YOU THINK YOU DO – YOU CONTROL MUCH LESS THAT YOU THINK YOUR DO – WE LIVE IN A PERMANENTLY UNSTABLE WORLD – ALMOST NO ONE AND ALMOST NOTHING IS SAFE

AND AS A RESULT YOU REALLY HAVE TO RETHINK SOME BASIC IDEAS ABOUT LEADERSHIP

OR PERHAPS GO BACK TO SOME CLASSIC IDEAS ABOUT LEADERSHIP – IDEAS THAT REFLECT THE WORLD AS IT HAS BEEN FOREVER AND NOT WHAT SOME HAVE CALLED THE FIFTY-YEAR BUBBLE THAT IS JUST ENDING

MACHIAVELLI SAID FORTUNE IS A GREAT RIVER THAT SOMETIMES VIOLENTLY OVERFLOWS ITS BANKS – THAT IS THE CLASSIC VIEW OF THE WORLD IN WHICH LEADERS OPERATE

## **2. AM I PLANNING TO BE A HERO AND NOT A LEADER?**

I SPENT TIME ON HOW THE WORLD NOW WORKS BECAUSE IT IS THE POWERFUL CONTEMPORARY REASON TO LOOK BEYOND THE MODEL OF HEROIC LEADERSHIP

OUR STANDARD VIEW OF LEADERSHIP IS THE HEROIC MODEL

IT SHOWS US GREAT FIGURES LEADING OTHERS, THROUGH INSPIRATION, CHARISMA, AND SACRIFICE, TO CONFRONT HARD ISSUES AND DO GREAT THINGS. IN OTHER WORDS, LEADERS ARE PEOPLE WHO CHANGE THE WORLD

THIS STANDARD VIEW – THAT DIVIDES THE WORLD INTO HEROIC LEADERS AND EVERYONE ELSE – IS, I BELIEVE, IS BOTH RIGHT AND WRONG. OR, TO BE PRECISE, RIGHT AND INCOMPLETE. GREAT LEADERS HAVE CHANGED THE WORLD. WE OWE THEM GRATITUDE AND RESPECT. WE CAN LEARN FROM THEIR COURAGE AND DEDICATION. BUT THEY PROVIDE INADEQUATE GUIDANCE FOR MANAGERS LEADING OR WORKING IN BUSINESSES TODAY.

LEADERSHIP TODAY, IN THE VAST MAJORITY OF CASES, INVOLVES ORDINARY PEOPLE, LIKE US, GETTING SMALL THINGS RIGHT AND GETTING OTHERS IN A COMPANY TO DO THE SAME

I BASE THIS CONCLUSION ON TEN YEARS OF STUDYING AND THINKING ABOUT WHAT I CALL QUIET LEADERS. INCLUDING AN ANALYSIS OF 100 HBS CASE STUDIES. MY CONCLUSION IS THAT QUIET LEADERS, DOING SMALL THINGS RIGHT, AND THE PEOPLE WHO MOVE AND CHANGE THE WORLD

IN FACT, I HAVE AN EVEN MORE RADICAL CONCLUSION. IT IS THAT, IF WE LOOK CLOSELY, IF WE READ SERIOUS BIOGRAPHIES OF HEROIC LEADERS, WE WILL SEE THAT THEY SPENT MOST OF THEIR TIME WORKING QUIETLY. JFK , FOR EXAMPLE, AND I WILL GIVE OTHER EXAMPLES ALONG THE WAY – AND THEN FATE OR LUCK OR OPPORTUNITY GAVE THEM AN EXTRAORDINARY CHANCE AND THE TOOK IT

LOOK AWAY FROM HEROES, CELEBRITY CEO'S, AND HOLLYWOOD MANAGERS. UNGLAMOROUS, EVERYDAY, IN THE TRENCHES LEADERSHIP IS WHAT MOVES AND CHANGES THE WORLD

DON'T TAKE MY WORD FOR THIS. HERE IS TESTIMONY FROM AN UNAMBIGUOUS HERO, THE NOBEL LAUREATE MEDICAL MISSIONARY, ALBERT SCHWEITZER

Of all the will toward the ideal in mankind only a small part can manifest itself in public action. All the rest of this force must be content with small and obscure deeds. The sum of these, however, is a thousand times stronger than the acts of those who receive wide public recognition. The latter, compared to the former, are like the foam on the waves of a deep ocean.

MY OWN EXAMPLE - FRANCO BERNABE AND ENI – SURPRISEp AT SEEING HIM – HE LED ENI, HE INSPIRED ENI, BUT HE WORKED AS A QUIET LEADER

MOST LEADERSHIP IS JUST HARD WORK – MOST IS NOT WHAT WE ASSOCIATE WITH HEROIC LEADERSHIP – IT IS NOT CHARISMA AND INSPIRATION AND GRAND GESTURES AND HEROIC SACRIFICE

IT IS THE ACCUMULATION OF THOUSANDS OF SMALL THINGS, DONE BY THE LEADER AND DONE BY THOSE WATCHING AND FOLLOWING A LEADER'S EXAMPLE

THESE THINGS ARE DONE BY PEOPLE WHO ARE MODEST - BRETON FISHERMAN'S PRAYER - O LORD, THE SEA IS SO VAST AND MY BOAT IS SO SMALL

THEY ARE DONE BY PEOPLE WHO ARE CAREFUL – NAVY PILOTS WHO LAND JETS ON THE TINY DECKS OF AIRCRAFT CARRIERS SAY “THERE ARE NO OLD, BOLD PILOTS”

THEY ARE DONE BY PEOPLE WHO ARE THOUGHTFUL – THE ACT QUICKLY WHEN THEY NEED TO, BUT THEY DON'T ACT REFLEXIVELY

THEY ARE DONE BY PEOPLE WHO ARE REALISTIC AND THEREFORE NOT CERTAIN OF THE TRUTH AND THE FUTURE AND THE RIGHT WAY – FRANKLIN ROOSEVELT DURING THE DEPRESSION – “PUBLIC CONFIDENCE, PRIVATE DOUBT”

WE NEED TO RETHINK LEADERSHIP – THIS MEANS PUTTING ASIDE THE STANDARD VIEW OF LEADERS, INCLUDING BUSINESS LEADERS, AS HEROES AND THINKING ABOUT ANOTHER MODEL

THE PROBLEM IN GREECE AND THE US AND MUCH OF THE WORLD TODAY IS A MULTI-YEAR AND MULTI-DECADE – IN SOME WAYS, LIKE JAPAN'S RECOVERY AFTER WWII

THE SOLUTION, THOUGH I DON'T LIKE THAT WORD, WILL BE THE ACCUMULATION OF A THOUSAND SMALL EFFORTS, EVEN IF A GREAT LEADER EMERGES – INSPIRATION AND DIRECTION MUST STILL

DEGENERATE INTO WORK – THAT IS THE JAPANESE LESSON OF THE  
MIRACLE RECOVERY – BE STRATEGIC - JOBS ON EXPERIENCE OF  
OPENING BOXES

SO WHAT DOES EFFECTIVE LEADERSHIP – WHICH IS QUIET LEADERSHIP  
– REQUIRE IN TODAY'S WORLD?

THAT TAKES ME TO MY NEXT QUESTION

### **3. AM I REALLY LOOKING AT MY FISH?**

LOUIS AGASSIZ STORY

IN THIS WORLD OF COMPLEXITY AND CONFUSION, YOU HAVE TO WORK EVEN HARDER, LISTEN EVEN MORE CAREFULLY, OBSERVE EVEN MORE CLOSELY, AND LEARN EVEN MORE

LET ME GIVE YOU AN EXAMPLE, FROM ONE OF AMERICA'S MOST SUCCESSFUL AND IMPORTANT GREEK-AMERICANS, JAMIE DIMON, THE GRANDSON OF A GREEK IMMIGRANT

WHY DID JP MORGAN SURVIVE AND EVEN PROSPER – NOT A SINGLE PERSON BUT DIMON WAS CRUCIAL

THE LIST JAMIE DIMON KEEPS IN HIS POCKET

DIMON ON DRILLING DOWN – BANK ONE ATM FLICKERS IN A DRUG STORE IN CHICAGO, DIMON ASKED AND WAS TOLD THE VENDOR HAD BEEN MONITORING THE PROBLEM FOR SIX MONTHS SO HE FIRED THE VENDOR ON THE SPOT

DIMON OPERATES AT 50,000 FT – I'LL TALK ABOUT HIS "FORTRESS BALANCE SHEET" STRATEGY LATER - A HE ALSO LANDS ON THE GROUND – ASKS HARD QUESTIONS, ONCE A MONTH, ABOUT THE DETAILS OF BIG, COMPLEX BUSINESSES RUN BY THE MORGAN CEO'S WHO REPORT TO HIM

THIS LETS HIM MAKE BETTER JUDGMENT AND TRUST HIS GUT, WHICH HE HAS TO DO, EVEN AFTER HE DEMANDS AND ASSESSES THE BEST DATA AND FORECASTS HE CAN GET

BECAUSE QUIET LEADERS, DON'T KID THEMSELVES, THEY ARE USUALLY ON THE LOOKOUT FOR ODD THINGS ON THE PERIPHERY THAT DON'T FIT ESTABLISHED PATTERNS. A FAMOUS DETECTIVE STORY ABOUT SHERLOCK HOLMES AS SOLVED BECAUSE HOLMES NOTICES A SMALL, SUBTLE THING - THAT THAT A DOG HAD NOT BARKED IN A PARTICULAR SITUATION – SHERLOCK HOLMES TO DR. WATSON: "YOU SEE BUT YOU DO NOT OBSERVE"

FINALLY, BECAUSE QUIET LEADERS DON'T KID THEMSELVES, THEY ARE CURIOUS. THEY ARE CONSTANTLY LOOKING FOR NEW INFORMATION, CONSTANTLY LEARNING AND TRYING TO PIECE THINGS TOGETHER.

IF YOU ARE UNCERTAIN AND CONFUSED AND YOU ARE PULLED IN DIFFERENT DIRECTIONS, TRUST THESE FEELINGS. IN SHORT, TRUST MIXED MOTIVES.

KEEP IN MIND THAT THIS IS VERY DIFFERENT FROM HOW LEADERS ARE SUPPOSED TO BE HAVE. THEIR GOALS ARE SUPPOSED TO BE CLEAR, THEY ARE SUPPOSED TO BE FULLY AND CONFIDENTLY COMMITTED TO THEIR TASKS. AFTER ALL, HOW CAN THEY ASK OTHERS TO FOLLOW THEM, IF THEY'RE NOT SURE WHERE THEY'RE GOING?

THERE IS A VERY IMPORTANT ELEMENT OF TRUTH IN THIS PICTURE OF HEROIC LEADERS. PEOPLE DO NEED TO SEE CLARITY AND CONVICTION IN THEIR LEADERS.

BUT THIS ANOTHER MEANING OF THE FAMOUS PHRASE, WIDELY ATTRIBUTED TO PRESIDENT FRANKLIN ROOSEVELT, WHO LED THE US THROUGH THE GREAT DEPRESSION, "PUBLIC CONFIDENCE, PRIVATE DOUBT." FOLLOWERS NEED TO SEE PUBLIC CONFIDENCE, BUT LEADERS OFTEN HAVE PRIVATE DOUBT, AND THAT IS A GOOD THING.

OUR MINDS ARE EXTRAORDINARY DATA PROCESSING MACHINES. THE AMOUNT OF DATA WE PROCESS JUST LOOKING AT A PICTURES WOULD OVERWHELM THE FASTEST COMPUTER. AND MOST OF THIS PROCESSING IS UNCONSCIOUS. AND SO THERE ARE TIMES WHEN WE FACE A HARD DECISION AND LITTLE THING IS BOTHERING US. IT IS CRITICAL THEN TO LOOK MORE CLOSELY AND SEE WHAT IS GOING ON

#### 4. HAVE WE REALLY THOUGHT THROUGH SCENARIOS?

ARE YOU THINKING CONCRETELY AND STRATEGICALLY ABOUT POSSIBLE FUTURES? ARE YOU THINKING ABOUT HOW YOU WILL PROTECT AND BUILD YOUR CORE ACTIVITIES UNDER THESE SCENARIOS?

PIERRE WACK AT HBS – CHANGING THE “MICROCOSM” IN THE MINDS OF OTHER PEOPLE IN AN ORGANIZATION

THIS IS NOT JUST WHAT DO WE DO IF SALES DOWN 10 PERCENT – WHAT ABOUT TWENTY PERCENT – WHAT ABOUT THIRTY PERCENT – THOUGH YOU NEED

PLANS IN PLACE FOR THIS – PLANS MATCHED TO TRIGGER POINTS – THIS MEANS UNDERSTANDING THE HAVE-TO-HAVES AND NICE-TO-HAVES – AT HBS, FELLOWSHIPS AND RESEARCH – SO YOU NEED TO BE ABLE TO SAY CLEARLY THAT THIS IS CORE AND THIS IS OPTIONAL, PERIPHERAL, EXPENDABLE

SO DO YOU HAVE THESE TRIGGER-POINT PLANS?

YOU CAN WAIT AND DEVELOP THEM AT THE LAST MINUTE BUT YOU WILL MAKE MORE MISTAKES AND YOU WILL HAVE FEWER OPTIONS

ADAM ARONSON – BRILLIANT SERIAL ENTREPRENEUR – CUTTING COSTS IS ALWAYS THE EASIEST WAY OUT OF A PROBLEM”

BUT YOU ALSO NEED TO DO REAL SCENARIO ANALYSIS – TESTING THE ROBUSTNESS OF YOUR STRATEGY AGAINST A WIDER RANGE OF SCENARIOS

THIS MEANS REALISTICALLY IMAGINING SCENARIOS, NOT JUST UP OR DOWN TEN OR TWENTY PERCENT

IT DOES MEAN THINKING DIFFERENTLY ABOUT STRATEGY. IN PARTICULAR, IT MEANS DEVELOPING A STRATEGY THAT CAN TAKE ADVANTAGE OF THE INEVITABLE SURPRISES.

JAMIE DIMON SPENT THE FIRST TWENTY YEARS OF HIS CAREER WORKING WITH SANDY WEIL. TOGETHER THEY BOUGHT A SERIES OF FINANCIAL COMPANIES, TURNED THEM AROUND, AND ACQUIRED MORE – THESE COMPANIES WERE ALL IN CRISIS OR NEAR IT, WHICH IS WHY THEY COULD AFFORD TO BUY THEM

THEIR BASIC STRATEGY WAS TO MAINTAIN WHAT THEY CALLED A “FORTRESS BALANCE SHEET.” THIS MEANT STRONG CASH FLOW AND

LIMITED DEBT. AND THIS MEANT THAT THEIR STOCK PRICE STAYED STRONGER, WHEN RECESSIONS AND OTHER SHOCKS AFFECTED THE BANKING INDUSTRY. AND THAT MEANT THEY COULD ACQUIRE OTHERS FIRMS, OFTEN AT BARGAIN PRICES. THEY COULDN'T SEE THE FUTURE. THEY DIDN'T KNOW WHEN CRISIS WOULD STRIKE. BUT THEY WANTED TO BE READY AND THEY WERE.

WHERE DOES THIS LEAVE CLASSIC STRATEGIC PLANNING? IT RAISES DEEP QUESTIONS ABOUT IT

GENERAL EISENHOWER – “RELY ON PLANNING, BUT DON'T TRUST PLANS”

CARL VON CLAUSWITZ – STRATEGY IS PREPARATION FOR THE FIRST CONTACT WITH THE ENEMY – AND THE ENEMY TODAY IS THE UBIQUITOUS DANGER, CONFUSION, AND UNCERTAINTY SURROUNDING US – THEN WHAT MATTERS ARE BROADER GOALS AND THE ABILITY TO IMPROVISE AND MOVE WITH SPEED – WHICH IS WHAT DIMON AND WEIL DID

## 5. ARE WE SEARCHING FOR CREATIVE RECOMBINATIONS?

WE HAVE TO LOOK EVEN MORE CLOSELY AT WHAT WEIL AND DIMON DID – BECAUSE YOU MIGHT THINK I’M TALKING JUST ABOUT FINANCIAL OPPORTUNISM

WHAT THEY DID AND WHAT SUCCESS FIRMS DO IN THIS NEW WORLD OF UBIQUITOUS MARKETS IS DIFFERENT – THE BEST LABEL I CAN THINK OF IS RECOMBINATION

WHAT DO THESE HAVE IN COMMON?

al Qaeda  
huffington post  
cafeteria religion  
nannies and housecleaners  
pc's  
collateralized debt obligations  
polly and molly

“EVERYTHING” TODAY IS A MODULE IN A MARKET – AND THE GREAT NEWS IS THAT MANY OF THESE MODULES ARE IDEAS, KNOW-HOW, AND CHUNKS OF TECHNOLOGY

ALMOST ALL ACTS OF GENIUS INVOLVE STANDING ON THE SHOULDERS OF GIANTS OR RECOMBINING IDEAS, TECHNOLOGY, AND THE LIKE – IPHONE NOT NEW – THE IPAD IS NOT NEW

THE MOST BRILLIANT SUSTAINED EXAMPLE OF RECOVERY FROM CALAMITY IS THE SO-CALLED JAPANESE “MIRACLE” – IT WASN’T JUST COPYING – IT WAS A BRILLIANT AND POWERFUL RECOMBINATION OF JAPANESE PRACTICES AND IDEAS AND OPPORTUNITIES FROM AROUND THE WORLD, IMPLEMENTED BY TINY, UNKNOWN COMPANIES THAT LATER BECAME THE WORLD’S GREAT BRANDS

I’VE BEEN GOING TO JAPAN FOR ALMOST THIRTY YEAR – WHAT HAVE I LEARNED?

GOVERNMENT MATTERS CRITICALLY BUT AS A BUSINESS LEADER YOU CAN’T RELY ON IT – COMPANIES HAVE THE EXPERTISE AND POWER TO GET THINGS DONE

THE TOYOTA EXAMPLE – PROBLEMS NOW, BECAUSE IT LOST SIGHT OF WHAT MADE IT ONE OF THE GREAT COMPANIES IN THE WORLD AND THAT WAS THE ACCUMULATION OF THOUSANDS OF LITTLE THINGS DONE RIGHT

EXPERIMENTING – MANAGEMENT IS EXPERIMENTING TODAY –  
LEARNING FROM EXECUTION AND ACTION – IN OTHER WORDS, THE  
BEST ORGANIZATIONS ARE LEARNING ORGANIZATIONS, AS TOYOTA  
WAS – ANOTHER REASON TO GO STEP BY STEP, TO DO STRATEGIC  
IMPROVISATION

SO AVOID THE BIG, HEROIC STRATEGIC LEAPS, UNLESS YOU HAVE NO  
CHOICE – BECAUSE YOU SHOULDN'T LEAP INTO VAST UNCERTAINTIES

INSTEAD DIVIDE BIG EFFORTS INTO SMALL ONES, KEEPING OPTIONS  
OPEN, LEARNING FROM DOING

ALWAYS KEEP OPTIONS OPEN, DON'T DECIDE THINGS BEFORE YOU  
HAVE TO DECIDE THEM

STRATEGY IS NOT A FIXED PLAN, IT'S AN EVOLVING COMMITMENT, IN  
THE WORLD TODAY

## 6. HOW AM I LEADING MY TEAM?

CONSULTING FIRM PAPER WEIGHT – “I AM NOT A GENIUS”

THE HEROIC TEMPTATION – PARTICULARLY IN A TIME OF CRISIS – IS TO THINK AND FEEL THAT YOU MUST DECIDE AND ACT – MOST OF THE TIME YOU HAVE TO RESIST THAT IMPULSE

IN A COMPLEX FLUID WORLD, WITH IMMENSE UNCERTAINTY, YOU JUST WON'T KNOW ALL YOU NEED TO KNOW

SO DON'T THINK OF YOURSELF AS THE PEAK OF A HIERARCHY

THINK OF YOURSELVES AS THE CENTRAL NODE IN A NETWORK OR AS THE HUB WITH SPOKES OF INFORMATION AND ACTIVITY REACING OUT FROM YOU

BUT THE BIG INITIAL QUESTION IS WHO IS MY BRAIN TRUST? WHO ARE THE IMPORTANT MEMBERS OF THE “WE” THAT IS LEADING THIS COMPANY?

THIS MEANS WHO ARE THE PEOPLE WHO HAVE THE JUDGMENT, THE KNOWLEDGE, AND THE INSTINCT FOR ACTION AND EXPERIMENTATION?

YOU PROBABLY KNOW WHO MOST OF THEM ARE – BUT BE CAREFUL YOU'RE NOT OVERLOOKING SOME QUIET LEADERS – THE UNSEEN COGS WHO KEEP CRITICAL THINKING MOVING, NO MATTER HOW DIFFICULT A SITUATION IS – These are the people who should be receiving the lion's share of your attention, so that they can feel like allies and partners in keeping the organization focused on its mission and pulling through – IT'S EASY TO MISS THEM AND FOCUS ON THE NOISY, IMPORTANT, POLITICALLY CONNECTED PEOPLE

AND, ONCE YOU HAVE YOUR BRAIN TRUST, YOU HAVE TO LOOK VERY CLOSELY AT YOUR RELATIONSHIP WITH THEM

A CLEAR PATTERN OF SUCCESSES LEADERS IN CRISIS SITUATIONS IS THAT THEY COLLABORATE RATHER THAN DOMINATE

ANOTHER PART OF THE PATTERN IS THAT EVERYTHING GETS ON THE TABLE – INCLUDING THE FEARS AND DOUBTS AND QUESTIONS

ANOTHER PART OF THE PATTERN IS THAT PEOPLE IN A BRAIN TRUST SOMETIMES FIGHT WITH EACH OTHER – LEADERSHIP IS GETTING THE CLIMATE IN MEETINGS RIGHT SO PEOPLE ARE OPEN AND HONEST –

DIMON HAS BEEN THIS WAY SINCE I HAD HIM AS A STUDENT – CANDID AND HONEST AND BLUNT WITH EVERYONE – BUT NOT TO SHOW HE'S THE BOSS OR HOW SMART HE IS – TO GET TO ANSWERS TO THE TWO CLASSIC HARVARD BUSINESS SCHOOL QUESTIONS:  
WHAT IS REALLY GOING ON HERE AND WHAT SHOULD WE DO?

SO YOU HAVE TO LOOKS HOW ARE YOU LEADING YOUR MANAGEMENT TEAM?

ARE THE REAL ISSUES ON THE TABLE?

ARE THE REAL EMOTIONS OUT THERE – JOHNSON & JOHNSON  
TYLENOL:

JAMES BURKE “WE WERE ALL SCARED”

AND, FINALLY, YOU HAVE TO THINK REALISTICALLY ABOUT HOW YOU ARE MOTIVATING THEM?

IN TIMES OF ACUTE CRISIS, YOU CAN RELY ON INSPIRATION AND A DESIRE TO KEEP THE BOAT FROM SINKING

BUT IN THE LONGER TERM, YOU HAVE TO BE A REALIST AND YOU NEED MORE THAT ALTRUISM AND SELF-SACRIFICE

HERE IS A PASSAGE WELL WORTH THINKING ABOUT: HILLEL THE ELDER:  
“IF I AM NOT FOR MYSELF, WHO WILL BE FOR ME? IF I AM ONLY FOR MYSELF, WHO AM I?”

THE OTHER GREAT ADVANTAGE OF RELYING ON MIXED MOTIVES IS THAT THE CAN GIVE QUIET LEADERS THE STRENGTH, DETERMINATION, AND TENACITY THEY NEED. TO BE VERY CANDID AND REALISTIC, PEOPLE ARE MUCH MORE LIKELY TO PERSIST IN A CAUSE IT SERVES THEIR SELF-INTEREST. THIS IS THE SELFISH GENE AT WORK. WE ALL KNOW THE POWER OF THE BIG ENGINE OF SELF-INTEREST.

QUIET LEADERS AREN'T SAINTS OR SOCIAL WORKERS, AND NEITHER ARE YOU. AND EVEN THE LIVES OF THE GREATEST HEROIC LEADERS SHOW US CLEARLY THAT SUCCESS REQUIRES STRONG MOTIVES RATHER THAN PURE ONES.

(COULD ADD ROSA PARKS – ANGRY AND DRIVER AND HERSELF)

## 7. AM I REALLY THINKING FOR MYSELF?

AT THE END OF THE DAY, AFTER LOOKING AT YOUR FISH, WORKING WITH THE KEY PLAYERS, THINKING CREATIVELY ABOUT RECOMBINATION AND REALISTICALLY ABOUT SCENARIOS – YOU WILL HAVE TO DECIDE

THIS HAS ALWAYS BEEN THE CASE FOR LEADERS

C ROLAND CHRISTENSEN:

The uniqueness of a good general manager lies in the ability to lead effectively organizations whose complexity he or she can never fully understand, where the capacity to control directly the human and physical forces comprising the organization is severely limited, and where he or she must make or review and assume ultimate responsibility for present decisions which commit concretely major resources to a *fluid and unknown future*.

THIS MAY SOUND EASY, BUT SO MANY EXPERIENCE AND SO MANY EXPERIMENT SHOWS US HOW MUCH WE ARE CREATURES OF THE CONTEXT AROUND US

SOLOMON ASH EXPERIMENT WITH PARALLEL LINES

THIS IS ESPECIALLY TRUE WHEN THE HEAT IS ON AND THE PRESSURE IS HIGH

WARREN BUFFET: “WHEN EVERYONE ELSE IS GREEDY, I TRY TO BE A LITTLE FEARFUL. WHEN EVERYONE ELSE IS FEARFUL, I TRY TO BE A LITTLE GREEDY.”

NOTICE THE WORDS “TRY” – THIS ISN’T EASY, EVEN FOR THE WORLD’S GREATEST INVESTOR – AND NOTICE THE WORD “LITTLE” – HE’S MODEST AND NOT OVERCONFIDENT

THIS WON’T HAPPEN NATURALLY

HAVE TO KNOW WHAT’S IMPORTANT – DIMON’S PAPER LIST

HAVE TO CREATE WHAT MARCUS AURELIUS CALLED “A SPACE OF QUIET” OR WHAT FRANCO BERNABE CALLED “SOLITUDINE”

## 8. AM I GETTING THROUGH?

THIS IS WHERE WE CAN LEARN FROM HEROIC LEADERS – THEY MANAGE TO COMMUNICATE POWERFULLY

AND IN TIMES OF CRISIS, THE PEOPLE IN YOUR ORGANIZATION AND OUTSIDE IT ARE LOOKING TO YOU, AS A LEADER, TO PROVIDE THREE THINGS:

A SHARED REALITY THAT THEY CAN ACT ON

A FRAME FOR SEEING AND UNDERSTANDING WHAT IS GOING ON

A SENSE OF DIRECTION AND HOPE

IN OTHER WORDS, A SHARED REALITY, A FRAME, AND A DIRECTION FOR HUNDREDS OF SMALL DECISIONS THAT YOU WILL KNOW LITTLE IF ANYTHING ABOUT

THIS IS HARD BECAUSE OF ALL THE NOISE AROUND US NOW AND BECAUSE OF THE CLASSIC ROBLEM OF “FUD” – FEAR, UNCERTAINTY, AND DOUBT

JOHN KOTTER: “MOST SENIOR EXECUTIVES UNDERCOMMUNICATE ON IMPORTANT ISSUES BY A FACTOR OF 10”

JOHAN LUNDGREN AT FRITISDRESSOR IN SWEDEN IN THE EARLY HOURS AFTER THE TSUNAMI – COULD BE A CALAMITY AND DO WHAT IS BEST FOR OUR CUSTOMERS – SO OTHERS THEN DECIDED ON SENDING FLIGHTS AND THE LIKE

THIS TAKES HARD WORK, LOOKING AT THE FISH, CREATIVITY, AND DEEP REFLECTION – LINCOLN AND SLAVERY EXAMPLE

SOME OTHER GUIDANCE

SIMPLIFY AND EXAGGERATE – GET A MANTRA THAT GIVES FUNDAMENTALS (POINT AND SPACE)

ONE-SENTENCE TEST – PETER DRUCKER KNOWN AS “SIGNOR UNA COSA” –

CROWN CORK AND SEAL – MUNDANE, BRILLIANT SMALL COMPANY

SOMEONE PUT THE TASK THIS WAY:

“Speaking from the heart, to the heart, directly, not too complicated, relatively brief sentences, words that are clear to everyone,” he said of the fine art of political rhetoric. “I’ve always said a model of a statement by a leader were the seven words uttered by Winston Churchill

[http://topics.nytimes.com/top/reference/timestopics/people/c/winston\\_leonard\\_spencer\\_churchill/index.html?inline=nyt-per](http://topics.nytimes.com/top/reference/timestopics/people/c/winston_leonard_spencer_churchill/index.html?inline=nyt-per) on the fall of France — ‘The news from France is very bad.’ That’s how he opened his speech to the country. Very direct, honest, no confusing what he’s saying, but very moving at the same time.”

DO YOU HAVE THE SYMBOLISM RIGHT?

INVESTOR COUNDN'T GET THROUGH, DIMON HIS PHONE NUMBER

DIMON VENDOR FIRED ON THE SPOT

YOU ALSO HAVE TO PROVIDE MEANING – AND THIS IS PERSONAL – CLOSE, OBSERVATIONAL RELATIONSHIP – KREMLINOLOGY – BIG SPEECHES HEAVILY DISCOUNTED – BE CAREFUL - FORD AND RUBBER

DAVID LILLIENTHAL, FORMER HEAD OF US TENNESSEE VALLEY AUTHORITY, WHICH BUILD DOZENS OF GIANT DAMS, AND A PRESIDENTIAL ADVISOR:

The managerial life is the broadest, the most demanding, by all odds the most comprehensive and the most subtle of all human activities. And the most crucial.

FINALLY, BE VISIBLE, BE AVAILABLE, BE AS CLEAR AS YOU CAN

## SUMMARY

THIS IS A DEFINING MOMENT  
REVEALING  
TESTING  
SHAPING

YOURSELF, YOUR COMPANY, YOUR SOCIETY

CREATING ISLANDS OF STRENGTH AND EXCELLENCE

ACT TOGETHER – BUSINESS IS OR SHOULD BE THE MOST DYNAMIC PART OF SOCIETY – AND YOU ARE A LEADERSHIP GROUP IN YOUR COUNTRY – WITH SOME OF THE MOST IMPORTANT THINKERS AND LEADERS IN HUMAN HISTORY A PALPABLE PRESENCE ALL AROUND YOU

WHAT KIND OF PROBLEM ARE YOU CONFRONTING HERE AND WHAT KIND OF PROBLEM ARE WE CONFRONTING IN THE US? – OF COURSE, FINANCIAL, POLITICAL, MANAGEMENT, CULTURAL, AND HOPEFULLY NOT A MILITARY

- BUT FOR YOU AS LEADERS, A DEEPLY HUMAN PROBLEM

ALL THIS MAY SOUND EASY, BUT IT ISN'T

IF YOU'RE NOT STRUGGLING, YOU'RE NOT GETTING IT – THE GREAT AMERICAN SUPREME COURT JUSTICE, OLIVER WENDELL HOLMES, PUT THE ISSUE THIS WAY: "I DO NOT GIVE A FIG," HE SAID, "FOR THE SIMPLICITY ON THIS SIDE OF COMPLEXITY, BUT I WOULD GIVE MY LIFE FOR THE SIMPLICITY ON THE OTHER SIDE OF COMPLEXITY."

THE STRUGGLE NOW, IN FRONT OF MANY OF YOU, IS FINDING A WAY, THROUGH PRACTICAL CREATIVITY, TO MEET THE FULL RANGE OF DEMANDING RESPONSIBILITIES FACING YOU.