

Advanced Diploma in Leadership and Management

Lesson 2 Practical Scandals and leadership

Where our are principled leaders?



Scandals



The leaders



Corporate Governance



What do you take on board?



Dimensions of leadership

Scandals lacking leadership

Enron

The fall of a Wall Street darling. Toxic culture

Lehman Brothers

Risks posed by rising home delinquencies were well contained

BP

Taking a day off to go sailing in the Solent as oil gushed into the Gulf of Mexico certainly didn't help either.

United Airlines

The boss not knowing all the facts

Leadership in question

Enron

Kenneth Lay (Chairman) of Enron told investors to keep buying more stock and assured them they were going in the right direction.



- False accounting
- It admits it had been inflating its income by \$586 million since 1997-2001
- Arthur Andersen legal counsel tells auditors to destroy Enron files
- As one of the five largest accounting firms in the United States at the time, it had a reputation for high standards and quality risk management.
- Arthur Andersen offered its stamp of approval,
- Many analysts started to question the transparency of Enron's earnings. The game was up

Scandals and leadership

Lehman brothers

The miscalculation

- Lehman valued at \$60 Billion
- On March 14, 2007, a day after the stock had its biggest one-day drop in five years, the firm reported record revenues and profit for its fiscal first quarter.
- did not foresee problems in the subprime market spreading to the rest of the housing market or hurting the U.S. economy.

Acquired five mortgage lenders

- Alt-A loans: loans without full documentation

The end

- On Monday September 15, Lehman declared bankruptcy, resulting in the stock plunging 93% from its previous close on September 12.



Leadership lessons from Lehman Brothers ex-ceo. On the last day of May 2009, ex-Lehman CEO Richard Fuld told an audience of investors and news media that he was not to blame for the 158-year old investment bank going bankrupt and for playing a role in the financial crisis.

BP Cover Up



“

But BP had a problem: It had lied about how safe Corexit is, and proof of its dishonesty would eventually fall into the hands of the Government Accountability Project, the premiere whistleblower-protection group in the U.S. The proof? A technical manual BP had received from NALCO, the firm that supplied the Corexit that BP used in the gulf.

”

- BP would be fined \$4,300 per barrel, almost four times as much, for a total of \$17.5 billion. That large a fine, combined with an additional \$34 billion that the states of Louisiana, Alabama, Mississippi, and Florida are seeking, could have a powerful effect on BP's economic health.

“It's as safe as Dawn dishwashing liquid.”

What were the Directors doing?

United Airlines

Dao was dragged, bloodied and screaming, off an aircraft after he refused to give up his seat for commuting crew members.



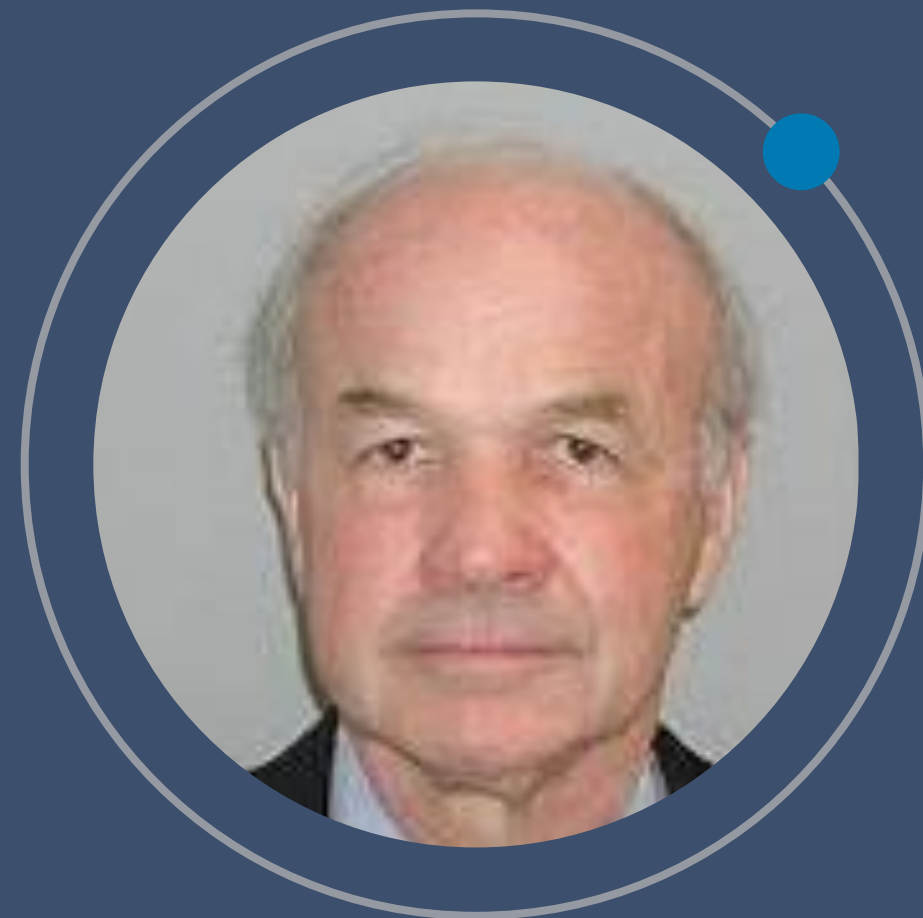
CEO Munoz States

1. "Followed established procedures"
2. Dao was "disruptive and belligerent".

Dao's lawyers have said he plans to file a lawsuit.

How's this for leadership?

The Leaders



Ken Lay
Enron



Richard Fudd
UK Prime Minister



Tony Hayward
BP



Oscar Munoz
United Airlines



Sarbanes Oxley

Does governance work?

What, exactly, did SOX accomplish other than imposing huge costs and giving us a false sense of security for six years?

Sarbanes Oxley

Sarbanes-Oxley passed 99-0 in the U.S. Senate and 423-3 in the U.S. House

Impact

Keeping managers focused on trivial mechanics and investors focused on the bogus management assessments of risk.

Provides a clear corporate governance

- Independence of the Board of Directors;
- Equity and transparency of pay; checks, balances and democracy of corporate control;
- Conservativeness of accounting.

Do you empower others?

Recap: Dimensions of transformational leadership

Role models

- Have charisma
- Willingness to take risks and follow a core set of values, convictions and ethical principles

Inspire

- Monitor the work of their team
- Watch for deviations
- Take corrective action

Empowers creativity and autonomy

- Support the team/followers
- Involves them in decision making
- Challenges assumptions and solicits ideas

Focus is not the follower

- Focus is on specific needs and desires
- The leader tries to determine what motivates each individual.
- Coaches and mentors them.

Building self-awareness

Determining your own ethical standards



- Be fair and just
- Respect others
- Honesty
- Team building and collaboration
- Value-driven decision making.
- Lead by example
- No tolerance for ethical violations
- Value Awareness

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Q & A