

# A test of leadership

*Anthony Fitzsimmons explains why adopting the right business culture is so important for a company and shows how intelligent questioning of orders can be healthy*

**O**n 13 May, 1940, Sergeant Walther Rubarth was in the vanguard of the German army invading France. His company had survived a hail of French machine gun fire as it crossed the River Meuse and fought through French defences.

Having reached his objective his orders were to dig in, but he was surprised to find that a key part of the battlefield was undefended – for the time being. He saw a golden opportunity to further the army's overall goal and advance, but to exploit it he had to disobey his orders. As he pondered the options, an officer arrived and ordered him to dig in. Rubarth challenged the order and won the argument. His subsequent actions went on to create “such destructive chaos that it unlocked the heart of the French defences and had decisive operational significance”.

This was not extraordinary. For decades, the German army had cultivated a culture of “intellectual development through curiosity, critical thinking, imagination and open-mindedness”, according to Professor Lloyd Clark,<sup>1</sup> that permitted and encouraged considered dissent underpinned

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by a clear articulation of overall objectives. It was an essential element of what the Germans call *auftragstaktik* (mission-orientated command).

Adopted by the German army in the nineteenth century, it is widely used in the British and US armies today. To work, it requires a clear culture shared across the organisation, well-defined goals and mutual trust. Execution is delegated to subordinates, working within the ethos and culture they have been trained to share. Intelligent dissent is encouraged.

Provided you have a good enough reason, and stay within the cultural rules, you can disobey orders to achieve the overall goal. Culture is, therefore, a central pillar supporting leaders as they exert control over their military machine. The feedback provided by intelligent dissent is essential to keeping it in good working order and using its innate intelligence to the full.

Fast forward 76 years to the City of London in 2016. Andrew Bailey, then leading the Prudential Regulation Authority and now chief executive of the Financial Conduct Authority (FCA), recognised the crucial effect of culture on outcomes that matter to regulators. His assessment of recent failures was damning of management and leadership. He said: “There has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture as manifested in governance, remuneration, risk management or tone from the top.”

So culture sowed the seeds of disasters, “for instance where management are so convinced of their rightness that they hurtle for the cliff without questioning the direction of travel”.

People find it easy to discuss the familiar, such as market, credit, liquidity or conduct risk, but are reluctant to talk about risks from individual behaviour, let alone the behaviour of their leaders. Most people find it embarrassing, dangerous, or both, to raise such subjects.

Bailey did not mince his words, continuing: “You can add to that [list], hubris risk, the risk of blinding over-confidence. If I may say so, it is a risk that can be magnified by broader social attitudes. Ten years ago, there was considerable reverence towards, and little questioning of, the ability of banks and bankers to make money or of whether boards demonstrated a sufficient diversity of view and outlook to sustain challenge. How things have changed. Healthy scepticism channelled into intelligent and forceful questioning of the self-confident can be a good thing.”<sup>2</sup>

1. Clark L (2017), ‘The Intelligently Disobedient Soldier’. Centre for Army Leadership. Available at [www.army.mod.uk/documents/general/Centre\\_For\\_Army\\_Leadership\\_Leadership\\_Insight\\_No\\_1.pdf](http://www.army.mod.uk/documents/general/Centre_For_Army_Leadership_Leadership_Insight_No_1.pdf).

2. Bailey A (2016), ‘Culture in Financial Services – a regulator’s perspective’. Bank of England speech. Available at: [www.bankofengland.co.uk/publications/Pages/speeches/2016/901.aspx](http://www.bankofengland.co.uk/publications/Pages/speeches/2016/901.aspx).

A central aim of the FCA is to drive fair treatment of customers through a culture that puts customers first and a system that allocates responsibility unambiguously. Who can argue with its requirement that managers communicate that aim to staff? Or with the responsibility placed on managers,

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via the senior managers regime, to put customers at the heart of strategy, staff training, reward or controls?<sup>3</sup> But is that enough?

The FCA's themes are sound. Allocating responsibility clearly ensures that all know who is in charge of what. The FCA understands that culture is rooted in history and can take years to change. It recognises that bad cultures from the past leave toxic legacies that endure. A company or industry

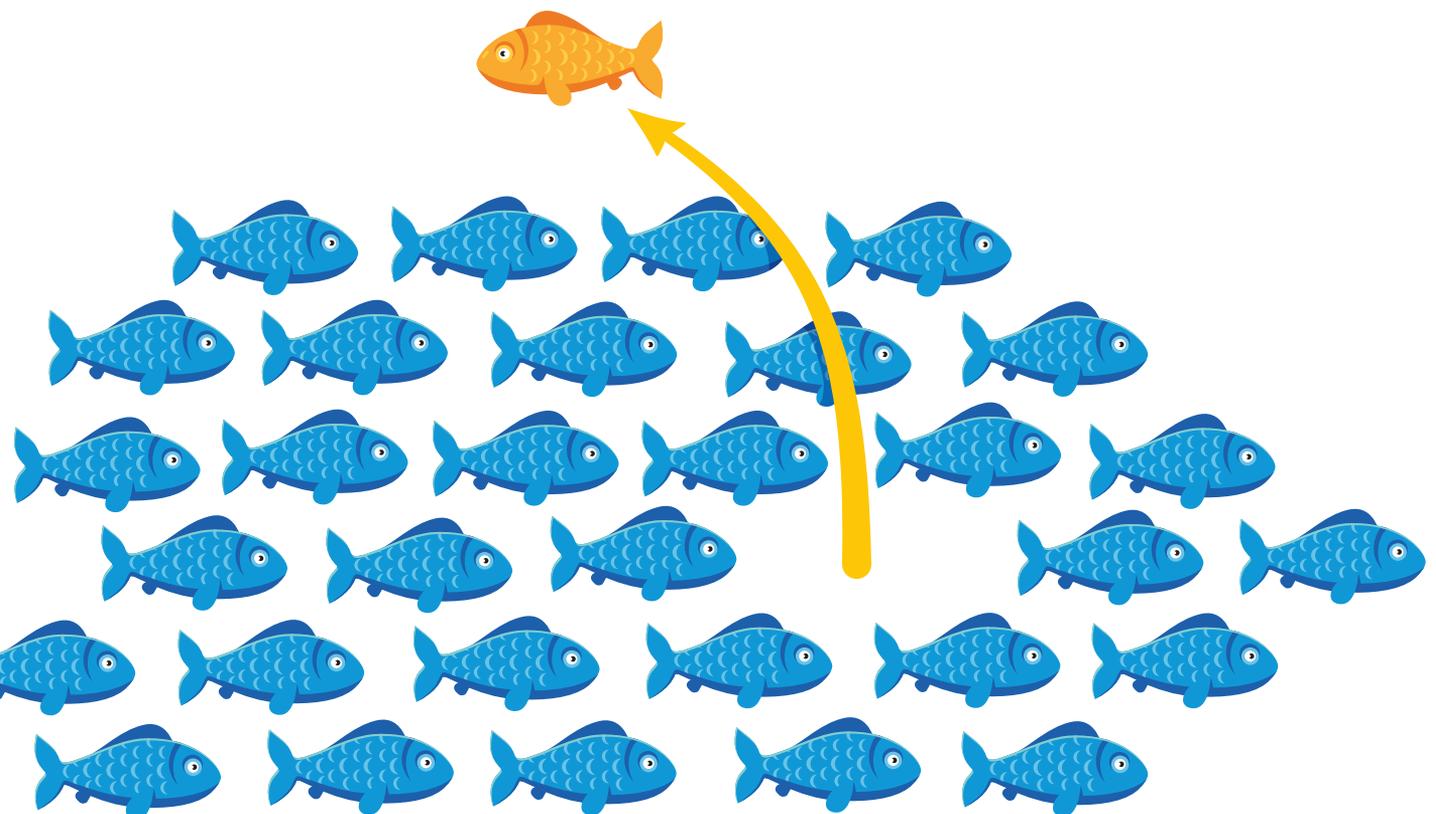
that has recruited, rewarded and promoted on aggression, self-confidence and greed for decades has a problem that will take decades, or a cull, to fix. Antony Jenkins, the former chief executive of Barclays, saw the enormity of the problem he faced when he wrote: “There might be some who don't feel they can fully buy into an approach which so squarely links performance to the upholding of our values. My message to those people is simple: Barclays is not the place for you.”<sup>4</sup>

The FCA emphasises tone from the top. How you behave matters even more than what you say. But in an industry that, for years or decades, has recruited and promoted for what are now seen as undesirable character and behavioural traits, where do you find leaders who combine technical competence with the traits, attitudes and values now required?

The answer is in the question. Desirable character traits should become an explicit part of the specification of every leader and potential leader and be given at least equal

3. Davidson J (2016), 'Getting Culture and Conduct Right - the role of the regulator'. FCA speech. Available at: [www.fca.org.uk/news/speeches/getting-culture-and-conduct-right-role-regulator](http://www.fca.org.uk/news/speeches/getting-culture-and-conduct-right-role-regulator).

4. 'Antony Jenkins to staff: adopt new values or leave Barclays', *The Daily Telegraph*, 27 January, 2017. Available at: [www.telegraph.co.uk/finance/newsbysector/banksandfinance/9808042/Antony-Jenkins-to-staff-adopt-new-values-or-leave-Barclays.html](http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9808042/Antony-Jenkins-to-staff-adopt-new-values-or-leave-Barclays.html).



weight with skills, knowledge and experience in recruitment and promotion. As Canada's respected Ivey Business School explained, good leaders balance confidence with humility; aggressiveness with patience; analysis with intuition; principle with pragmatism; deliberation with decisiveness; candour with compassion.<sup>5</sup> Organisations that dig more deeply may be pleasantly surprised to discover seams of people who were previously overlooked as potential leaders, including women and minorities of many kinds, with both technical skills and desirable character traits.

Any potentially risky aspects of leaders' characters should be discussed openly by boards and regulators. Those of senior leaders should feature prominently on the risk register. There are advantages in an enthusiastic, forceful or charismatic chief executive, but the corresponding risks should be recognised and managed. I was surprised when I first heard of a chief executive whose "dominant" character featured in the company's risk register; but its presence there made it possible for his dominant tendencies to be managed in normal polite discussion.

“ *Mishaps without any bad consequences provide valuable feedback on how the system is working* ”

Another aspect of tone is the company's strategy and how it is expressed: not just what you are trying to achieve but also how you manage clashes between objectives and principles and with what consequences. This feeds through to reward patterns.

Of course bonuses matter because you can expect to get more of what you reward – although you should take care what you wish for. Bonuses drove payment protection insurance sales that produced pain. The same applies to other kinds of reward, from a pat on the back through public praise to promotion. These patterns determine who leaves, who stays and who rises as particular character traits are encouraged and a culture built and reinforced.

Most telling is how you respond when objectives clash with principles. How do you deal with someone who gets the right result by crossing your red lines? And what about someone who forgoes a deal because they would not cross them?

But let us move into your office, today. What do you do when faced with a rule that does not work in your real world of work? Do you shrug, obey the rule and achieve the wrong result? Do you "work around" or disregard the rule, perhaps after discussing the problem with colleagues? Or do you tell your superiors that the rule needs to change and why? My experience suggests that more people take the first two options than the third. These undermine the ground rules – risking serious breaches – whereas feedback from intelligent dissent reinforces and improves them.

Another question: what happens if something goes wrong? Not so badly that it is obvious to your boss, but bad enough to need fast or fancy footwork. Do you tell your superiors? Analyse what went wrong and why? Make sure weaknesses are fixed and lessons learned widely? More likely the problem is discussed locally, if at all, then buried; yet mishaps without bad consequences provide valuable feedback as to how well the system is working, or not. They are often symptoms of systemic weaknesses where a bad outcome has been prevented by a mixture of luck and crisis management. When luck runs out, something far nastier happens. Consequences can be personal, painful and protracted.

Part of the reason for the persistence of risk areas is that leaders have not created psychologically safe spaces where subordinates, let alone leaders, can admit to mistakes and deal with them. Some leaders lack the humility and self-confidence to cope with contradiction, let alone regular intelligent dissent. The penal aspects of the UK senior managers regime, imposed on financial regulators may play a part, by causing leaders to see admitting errors as a weakness rather than a strength and an opportunity to learn from mistakes. Whatever the cause, the result is that rules are undermined and organisations fail to learn, leaving systemic weaknesses unresolved until something blows up.

Putting your customers first will please the FCA. But a more comprehensive route to sustainable success is to adapt *auftragstaktik* and intelligent dissent to achieve a culture that learns and repairs itself. It will also put your trusted team's expensively bought brainpower to more productive use. ■



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5. Gandz J at al. (2010), *Leadership on Trial: a manifesto for leadership development*. Ivey School of Business.