



BANK OF ENGLAND

Speech

Reflections on Leadership in a Disruptive Age

Speech given by

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I. Introduction

I was asked to reflect tonight on leadership and values. This is somewhat dangerous territory, and certainly one that creates a target-rich environment for critics who can spot gaps between preaching and practising. Indeed, a review of a recent book on leadership and values suggested that it's very publication signalled overconfidence – the complacency before the storm – and cautioned that CEOs and investors ought to be wary of the 'curse of authorship'.

There are countless examples of pride coming before the fall in finance. Think of those who dubbed the period before the Global Financial Crisis the 'Great Moderation'. Or the four most expensive words in the English language.¹

But, because we can learn from experience, and because leadership lies at the heart of Regent's University's mission- literally 'Developing tomorrow's global leaders' - I will forge ahead.

I will begin by reviewing the main activities of leaders and the core attributes of leadership. I will try to address what leadership is and isn't and whether it's inherent or can be developed. I will conclude with some perspectives on the challenges and opportunities you will face leading in our disruptive age.

II. Leadership Activities

It's important to distinguish between what leaders do and who they are.

Of the many things leaders must do, I would emphasise three:

1. Finding and developing the right people;
2. Setting priorities; and
3. Catalysing action.

Of these, arguably the most important is focusing on finding and developing the right people.

Developing the right people starts with recruiting widely.

The Bank of England has embraced the perspectives of those such as the leading venture capitalist, Sir Ken Olisa, who stresses that: "Tackling [diversity] is a business imperative and not an HR policy."² Ten years ago the Bank's graduate intake was comprised largely of economists drawn from just 11 universities. Last year, we hired from over 40 post-secondary institutions with half of the intake having studied sciences, business, law and the humanities. Of the 700 experienced professionals we hired in 2017, almost half were women and a quarter came from BAME backgrounds.³

¹ "This time it's different"

² As quoted in HR magazine, September 2017.

³ In 2010, 30% of the Bank's experienced hires were women and 10% were from a BAME background.

Once the right people are through the door they need to be developed. That includes identifying a pipeline of future leaders with a diverse and broad set of experiences and pushing them in order to prepare themselves for bigger roles. At the Bank, we not only recruit widely but also encourage colleagues to collaborate across the organisation and spend time in different areas to develop the varied skills required of a modern central banker.⁴

In large organisations, developing future leaders requires discipline. For example, Vittorio Colao, the CEO of Vodafone, reviews the company's top 200 executives annually to assess performance, set development actions and manage those who are having difficulties. The Executive Committee at Vodafone then discusses the progress of a different subset of their leaders at each Executive Meeting, making the process transparent and rigorous. The Bank of England has adopted a similar approach.

Developing the right people also requires a culture of inclusion that values diverse ideas, encourages open debate, and empowers people at all levels to take initiative. In a moment, I will come onto the steps the Bank of England is taking in these regards.

Finally, for leaders, having the right people also means being able to draw on trusted outside perspectives such as an external advisory board or informal contacts with other leaders. I'm fortunate that in my role I can regularly share experiences with a wide range of leaders in diverse fields. Of these, the most important sounding boards are my fellow central bankers. In this circle of trust, we can have regular, frank discussions of issues we either don't understand or that are particularly sensitive.

The second critical thing that leaders do is to set the priorities for their organisation. Before they do so, a good leader assesses the context in which their organisation operates. That process starts with discussions with all stakeholders, including clients, senior managers and, via roundtables and surveys, colleagues at all levels.

Understanding context requires developing intuitions about global developments and shifting technologies. This has always been second nature to central banking, but there are few organisations today that are not affected by the mega trends of shifting demographics, the accelerating pace of technological disruption and the search for a more inclusive capitalism.

When setting priorities, time is of the essence because of both the rapid pace of global change and the arc of a leader's personal capital within their organisation. As the global head of McKinsey Dominic Barton observes, "Great leaders set a clear agenda early on and then act on it fast. They never have as much power or impact as when they first take on the role."⁵

⁴ This is part of the Bank's Vision 2020 Strategic Plan launched in 2017, which aims to overhaul 'how we work' and 'how we communicate'. See: <https://www.bankofengland.co.uk/about/governance-and-funding>

⁵ Barton, D (2017) p. 3

The third thing leaders do is to catalyse action. Specific catalysts vary with an organisation's structure and culture, but in all cases they require the full and visible commitment of the leader before devolving power to colleagues. This means practicing what you preach, as General Colin Powell advised: "You can issue all the memos you want and give all the motivational speeches...but if the rest of the people in your organisation don't see you putting forth your best effort every single day, they won't either."⁶

Catalysing action means listening to and empowering colleagues, who are more likely to follow a new direction if they have been consulted during its development.

And it then means getting out of the way. As Teddy Roosevelt said, "The best executive is the one who has sense enough to pick good people to do what [the leader] wants done, and self-restraint enough to keep from meddling with them while they do it."⁷

Such delegation has traditionally been an anathema for central banks. But when following the crisis the Bank of England doubled in size and tripled in responsibilities, we knew our rigid hierarchy had to change.

To start that process, we surveyed widely and met with colleagues across the Bank in order to develop our new strategy. We then slashed the number of internal committees by two thirds and instituted a policy that the author of every analysis had to be in the room whenever it was discussed. We're now devolving decisions to the right level, changing the way we meet and making the Bank more permeable to the outside world by multiplying our channels of communications and the number of our spokespeople.

Finding and developing the right people, setting priorities and catalysing action are things that all leaders must do, but what ultimately most determines a leader's effectiveness is who they are.

III. Leadership Attributes

In my view, there are four essential and universal attributes of leadership:

1. Ambition
2. Purpose
3. Clarity, and
4. Humility.

1. Ambition

The first essential leadership trait is ambition. Not personal ambition but ambition for your organisation.

⁶ As quoted in Maxwell, J (2007) p.141

⁷ As quoted in Maxwell, J (2007) p. 230

When she was Vice Chancellor of Cambridge University, Alison Richard, would ask “Who will be ambitious on our behalf if we are not ambitious for ourselves? We cannot take Cambridge’s greatness for granted even after 800 years. We must tend it with care and energy, and ambition must translate into tasks.”⁸

If this message applies to Cambridge, an institution that is 800 years old, it certainly applies to the Bank of England at a little more than three centuries, to Regent’s University at a little more than three decades, and the latest start-up in Silicon Roundabout at a little more than three months.

2. Purpose

Ambition must be grounded in the purpose of the organisation. Purpose is what an organisation stands for; why it does what it does; and what it should be trusted to deliver.⁹ Purpose is always broader than a simple bottom line.

An organisation’s purpose can be for the client; such as Amazon’s goal ‘To be earth’s most customer-centric company’; or the greater good, such as the World Bank’s mission to ‘End extreme poverty’, and the Bank of England’s to ‘Promote the good of the people of the United Kingdom by maintaining monetary and financial stability’.

The leader’s job is to ensure that the purpose of their organisation is always present and anchors its goals, values, and strategy.

Like diversity, purpose is not a “nice to have”. Evidence shows that purposeful companies have higher employee engagement, greater customer satisfaction, tighter supplier linkages and better environmental stewardship. The pay-offs to purposeful business are superior share price performance, better operational performance, lower costs of capital, smaller regulatory fines and greater resilience in the face of shocks.¹⁰

Always remember that, as leaders, you will be stewards of the purpose of your organisations. In this sense, leadership is the acceptance of responsibility rather than the assumption of power. True leadership is not an end in itself but rather as a means to accomplishing a worthwhile goal.

These are lessons that some in financial services have had to re-learn in recent years.

An industry of the scale and importance of finance needs social capital as well as economic capital in order to operate, innovate and grow.

To maintain social capital, finance ultimately needs to be seen as a vocation, an activity with high ethical standards, which in turn conveys certain responsibilities. Those responsibilities recognise that finance is not an end in itself but a means to promote investment, innovation, growth and prosperity.

⁸ As quoted in Barton, D (2017) p.11

⁹ Big Innovation Centre (2016) p.19

¹⁰ Big Innovation Centre (2016) figure1.2 (p. 23-33)

Reforms of the financial system, particularly the Senior Managers Regime and industry-led Codes of Conduct, are helping to embed purpose in financial services including by making culture the responsibility of the CEO and the Chair and tasking industry with devising standards that take into consideration the needs of the system as whole.¹¹

3. Clarity

The third essential quality of leadership is clarity.

Clarity starts with the clarity of mind and sound judgment that arise from emotional awareness and control. A good leader is contemplative, meaning they can be present in the moment and find meaning in experience.¹²

Leaders will always find themselves facing multiple problems at the same time, but they have to be careful not to bring all those problems with them during every interaction. Part of a leader's job is to absorb the stress so the rest of the organisation can focus. And they need to remember that each of their (many) meetings each day is probably the most important for the others involved.

Clarity also means clarity of thought and communication: the ability to reduce complex problems to their essentials and then communicate them clearly.¹³ Say it straight. Say it simply. Say it over.

Leaders often use narratives to inspire people to act. Consider the difference between an exhortation "to implement Cop21's Nationally Determined Contributions in a determined fashion" with President Macron's simple statement, "Make no mistake on climate: there is no Plan B because there is no Planet B."

When leaders speak, they get the balance right between realism and optimism, by acknowledging uncertainty, mistakes and difficulties, but then by giving hope that these can be overcome. The engineer of America's Great Society, John Gardner, struck this delicate balance when he said: "What we have before us are some breath-taking opportunities disguised as insoluble problems."¹⁴

The Bank has sought to do the same on a number of issues ranging from:

- Climate change, where transition to a low carbon economy is a multi-trillion pound annual opportunity for investors;¹⁵
- To Brexit, where a financial services agreement between the UK and EU could serve as a template for liberalisation of free trade in services across the G20.¹⁶

¹¹ Carney, M (2017)

¹² See Ng Kok Song, P (2014)

¹³ Organisations with effective communication are over four times more likely to report high levels of employee engagement and 20% more likely to report low turnover according to a study by British Consultancy, CHA (as quoted in Kouzes, J and Posner, B (2010))

¹⁴ As quoted in Kouzes, J and Posner B (2010)

¹⁵ Carney, M (2015)

¹⁶ Carney, M (2017a)

When leaders get this balance right, the combination of purpose, hope and clarity inspires, unleashing the talent and energy of the organisation. Inspiration is essential because it is impossible for leaders to meet every challenge, see every opportunity, or manage every situation by themselves. The highest-performing organisations are those with the highest number of people who are empowered to think as leaders themselves.¹⁷

During the financial crisis the need for clarity of mind, thought and communication was paramount.

In its depth, panic took hold as, “Firmly held truths [were] no longer relied upon. Articles of faith [were] upended. And the very foundations of economies and markets [were] called into question.”¹⁸

The only goal in a panic is to stop it.¹⁹ Leaders do this by, as Napoleon would command to his generals “[to] march toward the sound of gunfire”. This requires mobilising quickly.

In this spirit, Tim Geithner’s refrain was “Plan beats no plan”. A plan provides the necessary clarity of mind by focusing efforts and uniting people around a common goal. Even a strategy that is half-baked but gets you out of immediate danger is better than waiting for the perfect answer and being annihilated.

Part of the plan to end the financial panic had to include reducing uncertainty over objectives. Some fretted that actions to save a crumbling system would encourage reckless behaviour in the future. Ben Bernanke was clear that invoking moral hazard in the middle of the U.S. financial crisis was misguided and dangerous.²⁰ Using the power of narrative, he challenged the arguments of the ‘moral hazard fundamentalists’ in his oft cited and simple hypothetical example: do you let the man who smoked in bed die in the burning house to teach him a lesson? Or do you save him, stop the risk of surrounding houses catching fire and then reprimand him for reckless behaviour?²¹

4. Humility

The final essential leadership quality is humility.

Recall what I said about this speech being a target-rich environment?

Good leaders combine personal humility, self-knowledge and the ability to learn. That means admitting mistakes, seeking and accepting feedback and sharing the lessons you have learned. When leaders become over confident (or turn to writing books), they stop learning.

¹⁷ Barton, D (2017) p.10

¹⁸ Warsh, K (2009)

¹⁹ As Tim Geithner, NY Fed Chair and later Secretary of the Treasury said “In an emergency you [the leader] need to lean against the forces of panic, restore confidence and reduce uncertainty.” Geithner, T (2014)

²⁰ Alternatively, Tim Geithner summarised the issue as follows: “Herein lies the paradox. In a brutal financial crisis like ours, actions that seem reasonable – letting banks fail, forcing their creditors to absorb losses, balancing government budgets, avoiding moral hazard – only make the crisis worse. And the actions necessary to ease the crisis seem inexplicable and unfair”. Geithner, T (2014)

²¹ Bernanke, B (2015) p.261 - 262

As a leader you also need to be humble about success and honest about failure. Humility and honesty are essential to authenticity, which to paraphrase Groucho Marx, is very hard to fake. Being authentic means doing what you say, and people knowing who you are – including what you believe in, what drives you, as well as your strengths and, importantly, your weaknesses. Authenticity is intimately connected with trust. People may not agree with all of your decisions, but they deserve to know why you made them. And your decisions will be easier to follow if people know what you stand for.²²

When a leader admits their weaknesses, they recognise that they are on a path of continuous learning and self-improvement. Becoming a leader does not mean you have made it and have nothing left to learn. Rather leadership is a discipline that involves deliberate practice and continuous learning.²³

In this spirit, policymakers must remain humble as they work to build a more resilient financial system.

We must remember that, although we can make financial crises less likely to happen and less severe when they do occur, we cannot abolish them. Something will go wrong again even if we do not know exactly what or precisely when. Accepting this means our best strategy is to create an anti-fragile system that can withstand potential shocks when they happen.

To accomplish that we are bridging, buttressing and burying.

Bridging by overhauling the way we provide liquidity. The Bank of England is now open for business with a wider range of collateral, to a wider range of counterparties, for longer terms, at lower fees than ever before.

Whereas before the crisis, the combination of banks own liquidity resources and their access to central bank facilities covered a mere 10% of short term liabilities of banks prone to run risk, today the figure is more than 100%.

The benefits of this new approach were clear around the Brexit referendum. In the run-up to the vote, the Bank undertook extensive contingency planning which included encouraging banks to pre-position enough collateral in our facilities to enable them to draw up to £250 billion in liquidity on demand. The combination of this war chest and coordinated G7 central bank action helped ensure markets functioned normally as the financial system absorbed a result that had been assigned a 10% probability hours before. And it meant we could credibly and immediately demonstrate to the public that we were well prepared.

We are buttressing the system via substantially higher bank capital. The capital of major UK banks has tripled and the requirements for the most systemic global banks have increased ten-fold. Tier 1 is now at 16.5%. Capital that would have been adequate for banks to withstand any of the 20 largest historic banking crises – and in the judgment of the Bank’s Financial Policy Committee, a Cliff Edge Brexit – and still lend to the real economy.

²² Kouzes, J and Posner, B (2010)

²³ *ibid*

By using multiple stress tests, we are spending less time trying to predict what could go wrong and more time being ready for the worst that could happen when things do.

And we are burying. The cornerstone of an anti-fragile financial system is literally planning for failure. Remember: plan beats no plan. That means resolution plans for banks; Crisis Management Groups for 30 GSIBs; and having banks building sufficient internal resources to recapitalise themselves if something goes wrong.

Large UK banks have already built their Total Loss Absorbing Capital to 25% of Risk Weighted Assets. And major UK banks are on track to complete by January next year the separation of their domestic high street businesses into 'Ring Fenced Banks'.

Ambition. Purpose. Clarity. And Humility. Not all of these qualities are ever visible in any leader, certainly never at the same time.

But if you keep them in mind, they will be seeds that the exercise of leadership will germinate. And their growth will benefit both you as the leader and those you lead.

IV. Conclusion: Leadership in a Disruptive Age

Your opportunity is enormous.

You will assume the mantle of leadership at a time of unprecedented globalisation of trade, capital and ideas; and at the dawn of the Fourth Industrial Revolution.

The deepening of the symbiotic relationship between global markets and technological progress has already lifted more than a billion people out of poverty, while a series of technological advances have fundamentally enriched our lives.

Globally, since 1960, real per capita GDP has risen more than two-and-a-half times, average incomes have begun to converge, and life expectancy has increased by nearly two decades.²⁴

Despite such immense progress, many citizens in advanced economies are lamenting a loss of control and losing trust in the system. To them, measures of aggregate progress bear little relation to their own experience. Rather than a new golden era, globalisation is associated with low wages, insecure employment, stateless corporations and striking inequalities.

The fundamental challenge is that, alongside its great benefits, every technological revolution mercilessly destroys jobs and livelihoods – and therefore identities – well before the new ones emerge.

²⁴ Carney, M (2016)

Moreover, recently, we have seen the power of networks to divide as well as to connect. Social media can reinforce our tendency towards confirmation bias as we search out the information consistent with our priors and disregard that which is not.²⁵

How to lead in such a world?

First, define your purpose and stick to it obsessively. And remember that purpose, including of business, must be grounded in the objectives of clients, society and humanity. As John Kay has observed, “Profit is no more the purpose of business than breathing is the purpose of living.”²⁶

Second, in a world of division, fusion will bring breakthroughs. Select your teams wisely and recognise that while diversity is a reality, inclusion is a choice. Take it.

Third, while you should always marshal your facts, you must engage people’s intuitions and win their trust in order to convince them. Do this through empathy – the antidote to righteousness.²⁷ Be open to dialogue and remember Henry Ford’s advice that, “the secret of success is to see things from another person’s point of view.”²⁸

Finally, do not confuse your leadership role with yourself or become addicted to the status and privileges of power. Rather, recognise that all leadership is temporary, that you will be custodians of your institutions and keepers of their flames.

And if possible, although it’s a bit late for me, take a cue from Cincinnatus and Washington, and leave before you are asked.

Thank you.

²⁵ As Haidt wrote, “People bind themselves into political teams that share moral narratives. Once they accept a particular narrative, they become blind to alternative models.” See Haidt, J (2012) p.20

²⁶ See www.johnkay.com

²⁷ Haidt, J (2012) p.365

²⁸ As quoted in Barton, D (2017)

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