Leadership in Banking

During the Financial Crisis in 2008

Bachelor Thesis for Obtaining the Degree

Bachelor of Science

International Management

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Vienna, 11 June 2016
Affidavit

I hereby affirm that this Bachelor’s Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

_________________________   ________________________________
Date                      Signature
Abstract

This thesis analyzes the topic of leadership and management styles which were applied in UK banks during the financial crisis in 2008. The purpose of the study is to determine a leadership style which is effective and leads to beneficial outcomes and even success for a bank. The actions taken by the leadership of two UK banking institutions will be subject to a critical analysis to assist in the determination of the ideal leadership style. Primary and secondary data was collected to ensure a comprehensive amount of high value information. The primary data was collected during interviews with employees in senior management at RBS (Royal Bank of Scotland) and HSBC (Hongkong Shanghai Banking Corporation). Four participants were interviewed, two for each bank. The conclusion of the case study is that an authoritarian leadership style leads to a hostile and unproductive work environment. On the other hand, a delegative leadership style empowers employees to take on more responsibility and fosters a productive and inclusive work environment. A participative leadership style is also an option if one's purpose it to lead successfully. There is no ideal leadership style in general, therefore it should be chosen depending on the need of the business. This thesis is beneficial to leaders in banking, but especially to RBS and HSBC whose leadership and management was analyzed extensively.
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1 Executive Summary

1.1 Research Objectives

The aim of this thesis is to understand the leadership and management style in the UK banking sector during the financial crisis in 2008 and compare it to the current status of the industry.

The specific research questions which are the foundation of this thesis and were aimed to answer are the following:

1. What impact did the financial crisis in 2008 have on the leadership and management style of the CEOs and the board of directors?

2. What differentiated the leadership and management style of banks which did require a bailout from banks which did not require a bailout?

The results of this thesis can be used as a guide for senior managers in banks to reflect on their own leadership style, and how it can be improved, to achieve the most successful outcome possible.

1.2 Statement of Method

To give an extensive analysis of the thesis topic the research approach which was selected for the thesis is the qualitative methods approach.

The research design will use case studies which help to provide a more in-depth analysis of leadership in banking during the financial crisis. Interviews will be conducted to give a comprehensive understanding of the developments in banking leadership during that time frame.

The data on which the conclusions in the thesis are based on are primary and secondary data, including but not limited to interviews with industry experts, academic papers and articles from a diverse range of media sources.

The timeframe of the analysis is a comparison of the situation during the financial crisis in 2008 and the current situation regarding this topic in the UK banking industry.
1.3 Case Study

For a better understanding of the research topic a case study is provided. In the case study two UK banks are compared and the differences in their corporate leadership and management style is analyzed critically. The banks chosen for the case study are Royal Bank of Scotland Group PLC ("RBS") and Hongkong and Shanghai Banking Corporation Holdings PLC ("HSBC"). The criteria for choosing these specific banks are the following:

- management, leadership and corporate governance before and during the crisis
- management, leadership and corporate governance changes in response to the crisis.

RBS will be used as the example of a bank which performed poorly whilst navigating the challenges of the crisis.

While HSBC also performed poorly it is nevertheless one of the large banks which performed better across the UK sector. Due to this, HSBC did not have to be bailed out by the UK government. Additionally, HSBC is similar to RBS in size, structure, and business model. This makes the easily banks comparable to each other and representative of large UK banks which do business globally.

In particular, the case study deals with the behaviors and actions of the CEOs and Board members before and during the 2008 crisis and compares them to the current situation.

1.4 Key Findings, Conclusion and Recommendations

The key finding of this thesis is that an autocratic leadership style in banking has a destructive effect on a bank and its business. Furthermore, is was established that there is no one best leadership approach which can be generalized for the whole banking industry. To select the best practice, it is recommended to analyze the situation of the business.

As mentioned before, the findings from this thesis are valuable to senior managers in banking. It explains which leadership styles lead to positive outcomes and which
lead to negative outcomes. Furthermore, it expands on the effects of applying the incorrect leadership style, which partly was the financial crisis but largely the aftermath caused by it.

2 Introduction

The financial crisis in 2008 led to the collapse of global economies. The causes which lead to the crisis were the systemic failures of the industry which had been perpetuated over the years, as there was no real oversight and there were only loose regulations in place.

The first step in deregulating the banking system was caused in 1998 when the Glass-Steagall act was repealed during the Clinton administration. This allowed banks to use depositors’ money to make risky investments which in turn helped the banks grow more quickly. Over the years the deregulation continued and banks exploited these opportunities (Swift, 2011).

The systemic risk in the banking industry, low capital requirements, and the inclination to invest into non-core businesses and products were causes which contributed to the financial crisis. These causes, combined with the bonus culture, the “too big to fail” mentality of the bankers, and their leadership style and management practices contributed to the crisis.

In this thesis the leadership style and management practices of two UK banks will be analyzed to determine the extent to which these factors influenced their performance during the financial crisis.

3 Literature Review

3.1 Leadership

3.1.1 Definition

There are a large number of different definitions for leadership. The reason for this is that leadership as a topic has never been analyzed completely but rather parts of
it have been researched. To find an encompassing definition of leadership Winston and Patterson (2006) from Regent University researched 160 articles and books which contained different interpretations of the subject. This research was used as a basis for an integrative definition of leadership. Winston and Patterson (2006) state “A leader is one or more people who selects, equips, trains, and influences one or more followers(s) who have diverse gifts, abilities, and skills and focuses the follower(s) to the organization’s mission and objectives causing the follower(s) to willingly and enthusiastically expend spiritual, emotional, and physical energy in a concerted coordinated effort to achieve the organizational mission and objectives”.

In the book Behavior in Organizations - Tenth Edition, Jerald Greenberg (2011) gives a similar definition of leadership. The explanation cited for the term is one that is accepted by many experts researching the topic. Greenberg (2011) writes, “leadership is the process whereby one individual influences other group members toward the attainment of defined group or organizational goals”. The definitions are very similar; the difference is that the first one captures all dimensions of the topic leadership. For a better understanding of this thesis the second definition will be used as a reference when discussing the underlying issues of the topic leadership. Nevertheless, the explanation including all relevant dimensions of the word should be kept in mind.

3.1.2 Characteristics

There are three main characteristics which can be attributed to leadership. The first one is that leadership involves non coercive influence. This means that subordinates follow their leader, due to the fact that they respect, like, or have admiration for him/her. The next characteristic is that the influence deriving from leadership is goal-oriented. Leaders influence their followers to control and direct their actions towards the achievement of a certain goal. The last characteristic of leadership is that it requires followers. This statement seems very clear, yet it may need clarification. What it implies is that leaders have the ability to influence their followers. The principle also applies in the opposite direction, meaning that followers influence their leader (Greenberg, 2011).
3.1.3 Theories

The great person theory assumes that leaders are born and not made. This means that an individual possesses certain traits that make him/her different to other individuals. Additionally, these special traits contribute to the reason why a person holds a position in power, authority, and leadership roles. The specific traits which these people have are as follows; leadership motivation (meaning, the desire to be a leader), flexibility, focus on morality, and multiple domains of intelligence (Greenberg, 2011).

According to Winston and Patterson (2006) there is another theory, the trait theory. It takes characteristics into account which can be measured, including but not limited to gender, race, height appearance, cognitive factors, psychological factors, efficacy factors, and emotional factors.

Both, the great person theory and the trait theory solely focus on the leader as an individual. It is possible for there to be more than one leader working together and therefore comprising a leadership team. In this case the trait theory would still be applicable. However, it remains unclear if the great person theory can be transferred to the model of a leadership team (Winston & Patterson, 2006).

A further theory is that of collective leadership. The leadership theory is also known as shared or distributed leadership. Collective leadership is created informally by the exchange between a leader and his/her team. The assumption hereby is that leadership roles are allocated according to the amount of knowledge a person has. Leaders are then given responsibilities is their area of expertise (Friedrich, Vessey, Schuelke, Ruark & Mumford, 2011).

3.1.4 Behaviors Participative vs. Autocratic

The autocratic-continuum model outlines that leaders allow their followers different degrees of decision-making power. The range of this power reaches from an autocratic leadership style, to a participative leadership style and finally to a delegating leadership style. An autocratic leader will make all the decisions alone, tell his/her employees exactly what to do and monitor their performance closely. The participative leader will ask for his/her employees opinions and consider their
opinions when making a decision. A person with a delegating leadership style gives his/her employees more responsibility and self-initiative to make their own decisions (Greenberg, 2011).

The autocratic-continuum model presents a very basic categorization of the different leadership styles. Therefore, scientists have developed the two-dimensional model of subordinate participation to be able to further address the participation of leaders in the decision process. The first dimension, called the auto-democratic dimension, shows the extent to which a leader allows his/her employee to actively contribute to a decision. The second dimension, known as the permissive-directive dimension, shows the extent to which leaders direct and control the work activities of their employees. The autocratic extreme is marked as no participation and the democratic extreme is marked as high participation. When the auto-democratic dimension and the permissive-directive dimension are put together, there are four possible outcomes to describe a leader (Greenberg, 2011).

Table 1: Two-Dimensional Model of Subordinate Participation

<table>
<thead>
<tr>
<th>Are subordinates permitted to participate in making decisions?</th>
<th>Are subordinates told exactly how to do their jobs?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (Democratic)</td>
<td>Directive democrat</td>
</tr>
<tr>
<td>No (Autocratic)</td>
<td>Directive autocrat</td>
</tr>
<tr>
<td>Yes (Directive)</td>
<td>Permissive democrat</td>
</tr>
<tr>
<td>No (Permissive)</td>
<td>Permissive autocrat</td>
</tr>
</tbody>
</table>

This table is presented by Greenberg (2011) and explains the composition of the four dimensions in the two-dimensional model of subordinate participation.

There is no “ideal” leadership style, as these four styles all have advantages and disadvantages. The success of a certain leadership style is dependent on a variety of factors, such as the internal and external conditions and challenges in an organization. Nevertheless, to be able to apply the best style to a specific situation it is crucial to know the differences between the four leadership styles. Furthermore, it
is vital to be capable of choosing the correct leadership style for a situation and adopting it in an effective way (Greenberg, 2011).

### 3.1.5 Leadership in a Crisis

There are two phases which have to be worked through when leading a business through a crisis. The executive has to navigate the business and its employees through the emergency phase and the adaptive phase. The goal in the emergency phase is to stabilize the crisis situation and buy as much time as possible. After achieving those objectives, the adaptive phase commences. In the adaptive phase the leader has to make adaptive changes to the organization, its structure, and work processes. These changes may be met with pushback from employees, but this should not hinder the person in charge to lead with authoritative certainty (Grashow, Heifetz, & Linsky, 2009).

When confronted with a crisis the people who hold powerful positions in an organization often “hunker down”. This means that they will default to solving the problems of the business by using short-term fixes. These short-term measures often include tightened controls, across-the-board cuts, and restructuring plans. The problem which leaders are currently facing is that organizations do not have the ability to create major change. The result is that short-term adaptations are usually insufficient, which leads to companies not just being unsuccessful but even having to find themselves fighting for survival after a crisis. There is an even greater risk of consistent failure if the conclusions drawn from the recovery after a crisis are incorrect. The only way to ensure that this does not happen is to practice adaptive leadership. People who have taken on this leadership style do not hunker down in a crisis. Instead the crisis situation is used to create a strategic advantage and important changes are made in the organization. The adjustments which are made in the core of the organization and are often small, but have a ripple effect which has a major impact on the whole business. The application of this leadership style is the possibility which is most likely to safeguard and reinvent an organization. Some areas of an organization will have to be eliminated, as they are not able to contribute to the survival and ultimately to the success of the business (Grashow, Heifetz, & Linsky, 2009).
Traditionally the skills which are required for effective leadership are proficiencies like analytical problem solving, crisp decision making, and the articulation of clear direction. Clearly these continue to be vital skills which a leader should possess. To be able to lead through a crisis new leadership practices are necessary. These include fostering adoption, embracing the disequilibrium, and generating leadership (Grashow, Heifetz, & Linsky, 2009).

One of the greatest challenges presently faced by executives is that they have to be capable of applying the best practices today, while simultaneously thinking about the development of the best practices for the future (Grashow, Heifetz, & Linsky, 2009).

When faced with a crisis it is important to embrace change. This is often very difficult, because certain practices have to be eliminated. To do this effectively the leader has to differentiate between what is essential for the business and what is expendable to the business. In order to build the adaptability of a company, experiments should be run and theories should be tested. By trying different practices and using the process of elimination one can then clearly see which measures were advantageous and which measures were less prosperous (Grashow, Heifetz, & Linsky, 2009).

To start the process of change a certain degree of urgency is needed. This may cause employees of the company to be less productive. The leader has to manage the zone of disequilibrium carefully. If the exerted pressure from the leadership of an organization is too low, employee’s productivity will be low. If the pressure put forth from the leadership of an organization is too high, employees will start to panic and hunker down. To balance the disequilibrium at the right level a leader should depersonalize the conflict. The goal hereby is to center the disagreement on the issues at hand, instead of the involved parties. It is important to remember that the issues are predominantly connected to people’s core competencies, loyalties and direct stakes. This is why it is imperative to look beyond the issue and act politically as well as analytically whilst demonstrating emotional intelligence. In the time of change every matter has to be discussed and analyzed, especially the difficult subjects. Moreover, it is an advantage if as many people as possible speak up. This
creates an open environment where different points of view can be contrasted (Grashow, Heifetz, & Linsky, 2009).

To achieve corporate adaptability many small adaptations, have to be made throughout the organization and the different environments within. The adaptations are made by employees of the organization if they are recognized, empowered, and feel acknowledged for their actions by their leaders. This is how leaders empower their employees which in turn develops the employees into leaders of their own microenvironment in the business. By distributing the leadership responsibility executives have more time to focus on the next challenges concerning the business. Another benefit is that employees are encouraged to solve problems, make their own decisions and share their know-how with colleagues. To ensure the maximization of innovative ideas and the new leadership generation a diverse workforce is of the utmost importance. Diversity within an organization fosters an enriched work environment (Grashow, Heifetz, & Linsky, 2009).

In a crisis an executive should not lead authoritatively and he/she should be optimistic as well as realistic about the potential outcomes the business could face after the crisis (Grashow, Heifetz, & Linsky, 2009).

3.2 Management

3.2.1 Definition

Management is a necessity in every organization, no matter the size. It is what makes a business operate smoothly and therefore managers are essential (Drucker, 1974).

3.3 Types of Management

There are different levels of management, based on hierarchy, scope of responsibility, and type of function in an organization. The various concepts are top-level management, middle-level management, frontline management, functional management, general management, and management of for-profit, non-profit and mutual-benefit businesses (Boundless, n.d.).
3.3.1 **Top-level Management**

Senior managers have the obligation to control the overall business. It is their responsibility to form corporate goals, a business strategy and company policies. These tasks determine the direction and ultimately the success or failure of a business. Additionally, top-level managers have to answer to shareholders and are accountable to all stakeholders involved with their business (Bantel & Jackson, 1989).

It is vital that a person holding such an impactful position has the correct expertise, experience, and skills. Usually every department of a business (such as, finance, operations, marketing, etc.) has a manager who solely focuses on making their area of the organization as efficient as possible and producing the best results for the specific department (Bantel & Jackson, 1989).

3.3.2 **Middle-level Management**

A mid-level manager answers to a senior manager and supervises the operational staff in his/her department. The responsibilities of a mid-level manager primarily include the execution of organizational plans made by senior management. Another important function is the provision of data and information so the high-level employees can create attainable strategies and goals for a company (Floyd & Wooldridge, 1992).

3.3.3 **Frontline Management**

Frontline managers are in the first level of management and are in charge of organizational work groups. They are at the lower spectrum of the hierarchy, but nevertheless very important as they are responsible for production oversight. Their contribution is critical to the company's success, because the frontline manager has to ensure efficient production processes while trying to keep the operational costs at a minimum. Interpersonal skills are of the utmost importance due to the fact that this position requires the motivation, supervision, guidance of subordinates (Singh, 2000).
3.3.4 Functional Management

The role of a functional manager is to make sure that organizational objectives are in line with a company's vision and strategy. He/she is the head of a department in the business, but is not as involved in operational processes. It is more common to employ functional managers in large businesses where there are many different departments. The Functional Manager should be an expert and have experience in the department he/she oversees (Pavett & Lau, 1983).

3.3.5 General Management

General Managers (“GM”) are usually employed in small- and medium businesses. They are responsible for all departments in the company. The tasks of a GM include, but are not limited to the management of day-to-day operations, and management and forecasting of resources. It is crucial that a General Manager has a diverse set of skills and extensive knowledge of the different business areas to be able to run a company successfully (Pavett & Lau, 1983).

3.3.6 Management in For-profit Organizations

For-profit companies operate with the goal to earn a profit and therefore create wealth and increase the company value. To achieve this goal, businesses produce and sell products or services to their customers. Employees are motivated by monetary compensations, like salaries and bonuses (Moore, 2000).

3.3.7 Management in Nonprofit Organizations

Non-profit organizations are created with the goal to support a charitable or educational purpose. It is prohibited to make a profit for the owner of the business. Most people working at such organizations are volunteers, as they are not paid. The management of the volunteers differs compared to the management of employees. As there is no monetary motivation to work, the managers of nonprofit organizations have to motivate them by leveraging the satisfaction of a contributing to a greater purpose (Moore, 2000).
3.3.8 Mutual-benefit Organizations

A mutual-benefit organization is usually a non-profit organization and is owned by the members. The goal is not to make profit, but to achieve a benefit for the members who own the company. Therefore, the business is not accountable to shareholders, and rather focused on the benefit it provides to its members and/or the environment. In this type of business, the employees are motivated because their interests are linked to the organizational purpose (O’Neill, 1994).

3.4 Leadership vs. Management

The two terms leadership and management are often used interchangeably, but they have distinct differences (Greenberg, 2011). The definitions and theories concerning both terms were analyzed extensively in the previous section of the thesis. To illustrate the distinction between these phrases once more they will be contrasted to each other.

A leader is a person who has a vision which goes towards attaining a goal or fulfilling the purpose and the strategy of an organization which can be used to obtain that goal. In comparison a manager is a person who implements said vision. In practice the leader chooses a direction for the future of a company. The manager then creates a plan and monitors the results gained from implementing the plan to eventually carry the leader's vision into effect (Greenberg, 2011).

In reality executives often don’t simply act as leaders, focusing on the vision. They also make a plan detailing the strategy on how to implement the vision. For this reason, there is often confusion about the differences between the two distinct terms. It is generally the case that a leader is also a manager, but not all managers are leaders (Greenberg, 2011).

3.5 Corporate Social Responsibility

3.5.1 Definition

As for the terms discussed in this thesis already, Corporate Social Responsibility (“CSR”) has been defined by many researchers in different ways. The consistency is
that the definitions refer to five dimensions which are imperative when discussing CSR, namely:

1. the environmental dimension (the natural environment),
2. the social dimension (the relationship between business and society),
3. the economic dimension (socio-economic or financial aspects, including describing CSR in terms of a business operation),
4. the stakeholder dimension (stakeholders to stakeholder groups), and
5. the voluntariness dimension (actions not prescribed by law) (Dahlsrud, 2008).

The implication is that these five dimensions are affected by a business and should be taken into consideration when creating a business strategy to secure the protection of them (Dahlsrud, 2008).

Dahlsrud (2008) states that it is not as important to have a clear definition of CSR, rather than understand how to take CSR into account when developing strategies for a specific business.

4 The Financial Crisis

As stated previously there were many different factors which contributed to the financial crisis in 2008.

Many American politicians, such as Senator Bernie Sanders and Senator Elizabeth Warren claim that the repeal of the Glass-Steagall act in 1999 during the Clinton administration was the first step towards destabilizing banking system. The Glass-Steagall act was passed in 1933 under the Roosevelt administration in response to the Great Depression. It forced banks to separate commercial from private banking, which means that banks were restricted from using depositors’ money for high-risk investments. The repeal of the Glass-Steagall act enabled banks, such as Citigroup, Lehman Brothers and Bank of America to grow substantially. Repealing this act was certainly not the only reason for the crisis, but it clearly contributed to the devastating outcome (Irwin, 2015).
Before the shock of the financial crisis there was consistent growth in the UK economy in the previous eight years. This time frame was known for a reduction in the macroeconomic volatility and was called “The Great Moderation”. During this period the global banking sector became more and more vulnerable (House of Commons, 2009).

In the US subprime mortgages were given out to lenders, who were at a high risk of defaulting on those loans. The issue was that the high-risk loans were given to big banks who pooled them and classified them as low-risk securities. The pooled loans were further used as collateralized debt obligations (“CDOs”) and divided into tranches depending on their risk of default. The tranches were rated by credit-rating agencies, like Standard & Poor’s and Moody’s. These credit-rating agencies were paid by the banks and gave the tranches high (usually AAA ratings) and therefore better ratings than they should have (The Economist, 2013).

The issues which were pointed out were large capital disparities and consistently growing deficits in western countries like the US and the UK. Additionally, there were surpluses in Asian markets. This lead to imbalances in capital flows between different countries which had the effect of banks offering low interest rates. The imbalances in capital flow between different countries were possible due to the fact that Asian economies were growing quickly and entering the market, thereby creating a surplus. Concurrently with this the policies in the industrial world ensured a certain level of demand to create a stabilized inflation rate. The combination of these two factors caused low interest rates in developed countries. The demand for assets increased as they were offering higher returns. This meant that money was being lent on loose conditions which increased to asset values and prices even more (House of Commons, 2009).

Low interest rates further caused the willingness to take high risks, which was called the “search for yield”. Many banks, but especially US and UK banking institutions took advantage of these conditions to increase their gains (House of Commons, 2009).

During the time when interest rates were low investors bought tranches of CDOs as they appeared to be safe and high-return investments. The low interest rates did not
solely influence investors, but also banks and hedge funds. All institutions in the finance industry were incentivized to invest into high-risk assets to gain higher returns. When the American housing market crashed a chain reaction was set off and frailty of the financial industry became apparent (The Economist, 2013).

Many people had not realized the extent of damage this scheme could cause to the global financial markets until the collapse of Lehman Brothers in September 2008. Due to the connections between the international banking institutions the crash of Lehman Brothers caused a chain reaction in the industry and banks which were following the same strategy were in a state of crisis (House of Commons, 2009).

4.1 Causes and Consequences

The primary cause which lead to the crisis was the culture fostered in the banking industry of always trying to get the easy reward. The CEOs managing the banks decided to take the path of least resistance, no matter the risk associated with that strategy. Furthermore, they did not consider the consequences which would result from those risks. As a result of this the majority of the banking institutions were not prepared for a crisis situation, failed to have appropriate risk management approaches in place, and this fundamental weakness exposed all their vulnerabilities. The consequences were that many major banks had to be bailed out by their governments (House of Commons, 2009).

The devastating crash can be traced back to the leadership in the banks and the fragility of the global banking system. CEOs acted irresponsibly and certainly not in the best interest of their shareholders. This behavior was perpetuated by the bonus culture which has been fostered by the banking industry. Senior managers are incentivized to deliver exceptional results, but only in respect to short-term goals (like the next quarter). In addition to that, the lack in oversight by the Board of directors only perpetuated the problem. As a consequence, there was a high turnover in management positions after the crisis hit. CEOs with more conservative business strategies were put into place. Regarding the Boards, oversight and monitoring of senior management became more important. Corporate governance principles were reviewed and amended to take the risks of the financial industry into account (House of Commons, 2009).
Another cause of the financial crisis was that the banking system in the US has slowly but steadily been deregulated over time and the international banking regulations which were in place were insufficient. They left too much leeway for the banks to exploit the economic situation during that time. As a result of the crisis the Basel Committee on Banking Supervision published new rules and regulations for the global financial sector. The regulations focus specifically on risk management in the industry (House of Commons, 2009). In addition, the EU

In the EU the financial market consists of three different areas, namely banking, security and insurance, and post-trading activities. After the financial crisis the EU introduced new regulations in banking, security markets, accounting standards and the framework which was put into place to ensure regulation and supervision in the financial sector (Quaglia, 2012).

While many CEOs of the large banks were removed from their positions, and received large severance packages, millions of people lost their homes and their jobs due to the actions of the bankers. The consequence the crisis had on these individuals and society as a whole often passes without critical analysis by commentators. Nevertheless, it started a discussion among the general public about corporate social responsibility. Corporations do not just have a responsibility to ensure they deliver their shareholders the highest return on investment (“ROI”) possible. They also should be aware of their responsibilities to the other stakeholders involved, particular their customers and the wider communities in which they operate.

5 Banking Regulations

5.1 Basel Committee on Banking Supervision

The Committee on Banking Regulations and Supervisory Practices was founded by the central bank governors of the G10 countries in 1974. Later on it was renamed to the Basel Committee on Banking Supervision. The Basel Committee was founded after the breakdown of the Bretton Woods system of managed exchange rates, when many banks had to deal with losses in foreign currencies. The Committee’s primary purpose was to create an exchange between banking institutions of the
member countries about supervisory matters in the banking industry. The Basel Committee on Banking Supervision has the aim to increase the understanding of important supervisory issues and enhance the quality and effectiveness of supervision in the global banking sector. To attain this goal, the Committee sets standards for banking regulation and supervision. The cross-border information exchange in the banking sector assists in determining risks for the financial system and increases the know-how concerning these problems in the industry (Bank for International Settlements, 2015).

The members of the Basel Committee come from Argentina, Australia, Belgium, Brazil, Canada, China, European Union, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States (Bank for International Settlements, n.d.).

The presiding chairman of the Basel Committee is Stefan Ingves. The Group of Governors and Heads of Supervision (GHOS) is consulted by the Basel Committee on crucial decision and is where the Committee has to report to (Bank for International Settlements, 2015).

5.2 Basel I

In 1988 the Basel Accord (Basel I/1988 Accord) was approved by the governors of the G10 and released to banks around the world. It was a capital measurement system which was put into place to stabilize the banking system. The objective was to eliminate a source of competitive inequality coming from the differences in capital requirements which each country had (Bank for International Settlements, 2015).

5.3 Basel II

In June 2004 The committee published the Revised Capital Framework (Basel II). The new framework was an adaptation of Basel I to the changes and new risks which had developed in the financial markets. It was built on three pillars, which were:
1. “minimum capital requirements, which sought to develop and expand the standardized rules set out in the 1988 Accord;
2. supervisory review of an institution’s capital adequacy and internal assessment process; and
3. effective use of disclosure as a level to strengthen market discipline and encourage sound banking practices” (Bank for International Settlements, 2015).

5.4 Basel III

Before the devastating collapse of Lehman Brothers in 2008 it had been apparent that it was necessary to put an additional set of regulatory measures into place to deal with the risk management in banking. In response to this the committee published “Principles for sound liquidity risk management and supervision” (Bank for International Settlements, 2015).

In December 2010 a new set of measures were put into place by the Basel Committee to reform banking supervision, strengthen the existing regulation, and monitor the risk management in the banking sector more closely. The measures formed to achieve the aim are to:

1. “improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source,
2. improve the risk management and governance, and
3. strengthen banks transparency and disclosures” (Bank for International Settlements, 2015).

These measures were specifically identified to solve issues with bank-level, or micro prudential regulation and macro prudential system wide risks. If these points would not have been addressed there would have been and still would be a high risk of banks failing in periods of economic stress. Additionally, there would be a variety of risks within the banking system which keep building up over time. The measures determined by the Basel Committee will ensure a reduced risk of system wide shocks to the banking industry (Bank for International Settlements, 2015).
There have been two versions prior Basel III (Basel I and Basel II), but as time goes on change is inevitable in the financial sector and therefore it is essential for the Committee to keep adjusting and amending the global banking regulations to protect the industry from new challenges and risks.

While some organizations have accepted a positive attitude towards reform in the financial sector others remain averse to change. Financial organization which are for change are less connected with others in the market, while on the other hand businesses who are against change are interconnected by lobbying networks (James & Christopoulos, 2015). This creates a disincentive for connected organizations to push for change in the regulatory system and rather try to maintain the current status of the industry.

6 Methodology

6.1 Approach

The purpose of this case study is to examine the leadership, and management style during and after the financial crisis in 2008 of two large banks in the UK. The banks which were chosen for this case study are RBS and HSBC. The aim is to clearly outline which decisions in leadership and management led to the outcome where one bank had to be bailed-out by the government and the other was able to survive the crisis without governmental support.

In order focus the thesis, the following two research questions were formulated:

1. What impact did the financial crisis in 2008 have on the leadership and management style of the CEOs and the board of directors?

2. What differentiated the leadership and management style of banks which were better equipped to deal with the oncoming crisis from banks which were poorly equipped to deal with the crisis and therefore crashed?

For the purpose of this paper a qualitative research approach is used to present a clear picture of the situation during the time of crisis. In order to exhibit a
comprehensive overview of the topic primary and secondary data is analyzed. Furthermore, a case study was conducted as well as in-depth interviews.

First the general theories and constructs of leadership and management are explained and outlined to give a better understanding of these topics. Then the phenomenon of the financial crisis and the causes and consequences surrounding it are discussed. The primary part of the paper was aimed at providing a basic understanding of the topic and conveying crucial information about the state of the banking industry during the analyzed timeframe (the financial crisis in 2008).

In the case study two large UK banks, namely RBS and HSBC, are analyzed with the goal to determine the effectiveness of their management and leadership styles. First, each bank is described in a brief profile. This shows that the competitors are similar in size, structure, and business profile which makes them comparable. Additionally, this demonstrates that they can be seen as representatives for the UK banking industry, and more specifically for large UK banks who share similar characteristics.

To gain further in-depth knowledge of the perceptions of leadership and management during the time of crisis, interviews with senior employees from both RBS and HSBC were conducted. The interview participants were employed at the banks at the time of the crisis and/or during the recession after the crisis which gives them a unique and close perspective of the on goings during the analyzed timeframe. The interviews were conducted in person and had open ended questions. Every participant had the opportunity to answer the same six questions. The interview questions were designed to better understand the actions taken by RBS and HSBC in the wake of the financial crisis. The first question is in regard to the perception of the CEO’s during the crisis. The next two questions are about the impact of the Board of Directors’ on the CEO’s management style and to what extent their intervention influenced the outcome of the crisis for each bank. Furthermore, the interviewees were asked about the lessons which were learned and the current visibility of changes resulting from that learning curve. The next question focuses on the extent to which the leadership of each bank contributed to their ultimate survival. Lastly the participants were asked to outline the differences of the bank they were employed at to the other bank which is analyzed in the case study, and/or
other banks in the UK sector. The answers given by the interview participants are contrasted and compared to each other in a narrative analysis to find out if there is consistency in their opinions. The findings are then summarized and presented to conclude the case study.

Finally, conclusions are drawn from the combined analysis of the theory and the outcome of the case study.

7 Case Study

7.1 Royal Bank of Scotland Group PLC – Bank Profile

The Royal Bank of Scotland Group is a UK-centered public limited company which provides banking and financial services to customers worldwide. The bank was founded in 1727 and is headquartered in Edinburgh, Scotland (United Kingdom). As an international player in the financial services sector RBS is represented across the globe, in Europe, Asia, the Middle East and North America (RBS, 2015).

7.1.1 Corporate Governance

Royal Bank of Scotland is managed by a structured framework of different boards and committees. At the head of this structure is the group board which is responsible for making decisions about the leadership and control of the company. Furthermore, the board determines the strategy for the group and each of its separate brands. A formal schedule of matters has been put into place which is reviewed at the annual board discussion (RBS, 2015).

7.1.2 Chief Executive Officer

The current chief executive officer of RBS is Ross McEwan who was appointed in October 2013. Ross McEwan has over 25 years of experience in the banking and finance industry. He has worked as the CEO of National Mutual Life Association of Australasia Ltd/AXA New Zealand Ltd., managing director of First NZ Capital Securities and executive general manager at Commonwealth Bank of Australia before starting at RBS in August 2012 (RBS, 2015).
7.1.3 The Board of Directors

The presiding chairman of the board is Howard Davies. The group board is the highest authority at the bank and therefore responsible for the long-term success of RBS and the returns for the shareholders. The primary objective of the board is to “provide leadership of RBS within a framework of prudent and effective controls which enables risk to be assessed and managed” (RBS, 2015).

The hierarchy continues with a number of committees, which are responsible for different areas of banking. Nevertheless, it is their main objective to advise the board to ensure the bank's success. These committees oversee the following areas; audit, risk, performance and remuneration, nominations, sustainable banking, capital resolution board oversight, executive, corporate and institutional banking board oversight, compliance statement and remuneration policy, auditor independence (RBS, 2015).

7.1.4 Values

At the core of the bank's values is the key concept of wanting to serve customers well. Additionally, their values include important characteristics, such as teamwork, doing the right thing and always thinking in terms of the future (RBS, 2015).

7.1.5 Brands

RBS has a diverse range of brands including NatWest, Royal Bank of Scotland, Ulster Bank, Coutts, Adam & Company, Child & Co., Drummonds, Holt’s, Isle of Man Bank, Lombard and RBS International (RBS, 2015).

In 2014 the company recognized that they would be more successful if they shifted their focus back to their original core competencies and core markets. For this reason, many of their international brands were sold (RBS, 2015).

7.1.6 Products

RBS offers its financial services to private, corporate, as well as international customers.
The diverse range of products offered to customers include but are not limited to current accounts, credit cards, savings accounts, investments, loans, overdrafts, mortgages, home insurance, life insurance, and car insurance (RBS, 2015).

### 7.1.7 Mission

RBS has positioned itself to be more focused on the UK and Ireland banking market with the mission to become stronger, simpler, and fairer. The bank further states that they want to be known as the number one bank in the areas of customer service, trust, advocacy, business efficiency, commitment to supporting enterprise and economic growth, and investments in new technologies and processes. For a better understanding of the most important concepts, the keywords stronger, simpler and fairer are further divided into sections. Stronger means focusing on reducing risk, building capital, the balance sheet and investing in technology. Simpler refers to all aspects related to easing the banking experience for their customers. The last keyword in the bank’s mission statement is fairer, which refers to their responsibility to act in the best interest of their customers (RBS, 2015).

![RBS Earning/loss per share (GBP)](image)

*Figure 1: RBS Earning/loss per share (GBP)*

The graph above shows the earnings/loss per RBS share in GBP from 2005 to 2010. This clearly demonstrates how steep the loss was in from 2007 to 2008 when the
financial crisis started in the US and made its way into the financial markets in Europe.

This pie chart shows the risk in the geographical areas RBS was operating in. As a UK centered bank more than half of the risk was geographically in the UK. Nevertheless, a substantial amount was in the US which is why the RBS had started to feel the effects of the crisis before it had expanded into the European financial markets.

7.2 Hong Kong and Shaghai Banking Corporation Holdings PLC – Bank Profile

HSBC is an international bank which was founded in March 1865, in Hong Kong, China. Today the bank has its headquarters in London, United Kingdom. It operates in more than 71 countries and territories around the world and serves over 47 million customers. HSBC was able to survive and consistently be successful in the past 150 years due to their willingness to adapt to the challenges which arose in the financial sector over this time, including revolutions, economic crises and the immersion of new technologies (HSBC Group, 2016).
7.2.1 Corporate Governance

HSBC has put a variety of policies and systems into place to make sure that there is effective oversight and control within the bank and to avoid mismanagement occurring on any level. The Group has high standards for corporate governance which is clearly outlined in their corporate governance codes. These corporate governance codes expand on the codes provided by the UK Financial Reporting Council and the Stock Exchange of Hong Kong. All senior financial officers are held to the highest standards at HSBC and must comply with the company’s code of conduct which is based on the principles of governing honestly and ethically (HSBC Group, 2016).

HSBC is managed by a Chief Executive. Furthermore, the leadership is structured into different board committees which consist of different directors and non-director members. The hierarchy continues with the directors who are responsible for the internal control of the bank. They have the task of analyzing the effectiveness of the different areas within the bank (HSBC Group, 2016).

7.2.2 Chief Executive Officer

Stuart Gulliver was appointed to the position of CEO of HSBC in January 2011 and currently still holds this position. He started working for the bank in 1980 and has held a variety of vital positions in the company since that time. These positions include serving as the chairman on different boards responsible for internal oversight at HSBC (HSBC Group, 2016).

7.2.3 The Board of Directors

The presiding chairman of the board is Douglas Flint. Mr. Flint has been with HSBC since 1995 and was appointed to his current position as chairman of the board in December 2010. The chairman is not only responsible for the leadership of the board, but also manages the performance of the CEO. Further responsibilities of the board of directors include:

- the overall management and monitoring of HSBC,
- maintaining relationships with various regulators, the government, and investors,
• ensuring cooperation between non-executive directors and members of senior management,
• ensuring the good image and reputation of HSBC is upheld,
• ensuring a sustainable and long-term growth of the bank, and
• ensuring the effectiveness of HSBC’s leadership (HSBC Group, 2016).

7.2.4 Values

The values on which HSBC is built on are being dependable, being open minded to new ideas and cultures, and being connected to all stakeholders involved in their business.

Being dependable includes delivering on their commitment to customers, being a trustworthy business, and being accountable for actions made by the bank. By being open minded to new ideas and cultures HSBC wants to affirm that they are inclusive and value different viewpoints. Furthermore, the group states the importance of caring about all stakeholders which are impacted by their business and reiterates the importance of being aware of external issues which can impact the business of HSBC (HSBC Group, 2016).

7.2.5 Brand

HSBC operates a vast amount of subsidiaries in Europe, Asia, Middle East, North Africa, North America, and Latin America. All of these subsidiaries operate solely under the HSBC brand name (HSBC Group, 2016).

7.2.6 Products

HSBC offers a variety of products to its customers, such as current accounts, savings accounts, credit cards, loans, mortgages, overdrafts, stocks and shares, investment funds, home insurance, and travel insurance.

7.2.7 Mission

HSBC has the goal to become the world’s leading and most respected international bank. They position themselves in markets and economies which still have a large growth potential. The strategy to ensure the realization of their goal and the long-term success of the bank includes two crucial points; building a global network of
businesses and the provision of wealth management for all the different types of customers. More specific HSBC focus lies on capturing market share in emerging markets and gaining customers from the growing middle class within these markets (HSBC Group, 2016).

![HSBC Earnings per share (USD)](image)

**Figure 3: HSBC Earning/loss per share (USD)**

The graph above shows the earnings per HSBC share in USD from 2005 to 2010. There is a steady decline from 2007 to 2008 which was caused by the effects of the financial crisis. From 2008 to 2009 the earnings become even less due to the aftermath of this event. After that the trend line recovers and the earnings per share start to increase.
This pie chart demonstrates the geographical division of HSBC’s total assets in 2008. It shows that more than half of the total assets are in Europe. The remaining assets are divided among the other geographical regions in which HSBC operates, namely Hong Kong, Asia-Pacific area, North America, and Latin America.

8 Data Analysis

8.1 Participants

The interviews conducted had two participants from Royal Bank of Scotland Group plc and two participants from Hongkong and Shanghai Banking Corporation Holdings PLC. All four participants are employees in senior management and were working for the previously mentioned banks during the analyzed timeframe. The interviewed employees were working in different areas within the banks, namely corporate banking, investment banking, and international banking. This makes them qualified to share their expertise and their unique views on the leadership and management aspects of RBS and HSBC.
8.2 Interview Design

The interview consisted of the same six questions which were given to all participants. The interviews were conducted in person.

The following questions were asked and answered in the course of the interviews:

1. How would you describe the corporate behavior and personality of Fred Goodwin (RBS)/Michael Geoghegan (HSBC) at the time of the global financial crisis in 2008? Was he a leader* or a manager*?
   *Definition Leader: Envisions and articulates the purpose or mission of an organization and the strategy for attaining it.
   *Definition Manager: Oversees the implementation of the purpose or mission of an organization.
2. How did the Board of Directors’ response to the global financial crisis impact the management style of the CEO at RBS/HSBC?
3. To what extent did the Board’s intervention during the financial crisis influence the outcome for RBS/HSBC? (and the bank’s eventual bailout by the government/no bailout)
4. What were the crucial lessons from the financial crisis, and the resulting changes in leadership, management practices and corporate governance? How are they visible in the behaviors of the current management and leadership of RBS/HSBC?
5. To what extent did the leadership of the CEO and the governance practices of the Board ultimately contribute to the survival of RBS/HSBC? (requiring government support)
6. What differentiated the leadership and management style of RBS/HSBC from that of banks which did not require a bailout (like HSBC/RBS)?

8.3 RBS Interview Summary

Fred Goodwin is described as an authoritarian leader who was not open to, and did not value input from others. Goodwin managed RBS in his own way to fulfill the vision he had for the company. His goal was to achieve as much growth as quickly as possible. A high growth strategy like that is always linked to high risks. Furthermore, both interviewees stated that nobody, from senior management was willing to
challenge the former CEO of RBS on the business strategy or any other issues. The problem that arises from maintaining a strictly authoritarian leadership style is that one person has all the power. Additionally, to having the full decision power, other employees were reluctant to criticize Goodwin. This leadership behavior fostered a destructive corporate environment where Goodwin was able to bully senior management and even the Board into letting him take great risks which ultimately led to the downfall of RBS.

When the financial crisis hit the UK banking sector immediate changes had to be made at RBS. The composition of the Board was changed and Fred Goodwin was relieved of his position as CEO. Stephen Hester was appointed as the new CEO of RBS. It was Hester's goal to change the high-risk strategy which RBS had been following the past years and achieve sustainable growth by imploring a more conservative strategy. Hester also concentrated on fixing the problems the bank had, to be able to return to profitability. Unfortunately, these changes happened too late and it was not possible to undo the financial damage which had already been done to RBS. The government immediately had to step in and bail out the bank, which would have failed otherwise and caused even more damage to the already very unstable UK banking system.

Due to the fact that the leadership of RBS had failed in preparing for a destabilization of the banking sector and the resulting crisis, the government bailed out the bank. The answers given by the participants about how the impact of the Board’s intervention influenced the outcome for RBS slightly differ from each other. The first viewpoint is that the Board actively sought out the support of the government and the Bank of England. The other answer reflects that the Board had a more passive role in this matter. The explanation for this is that RBS had been mismanaged to such a devastating extent, that the responsibility for the bank was taken away from the Board and given to the government. This minor difference between the two answers may be unfortunate wording, yet the second answer implies that there was a high degree of distrust in the Board to solve the problems which RBS was facing.

The result of the financial crisis was a steep learning curve for leaders and managers in banking. The vital lessons were:
• have good bank oversight and control,
• stick to the core businesses,
• ensuring enough capital to deal with financial shocks,
• sound asset quality,
• minimal asset concentrations,
• ensuring enough liquidity and a high diversity of funding sources,
• having a clear strategy which is built on good business judgment, detailed analyses and forecasts,
• employing a CEO who is willing to face the challenge and is open to different opinions, and
• installing a Board who is not afraid to challenge the CEO and can lead by showing good corporate governance.

The answer to what extent the leadership by the CEO and the Board contributed to the survival of RBS is “at the time of the crisis, not at all” (Interview B, 2016). The governance practices of the new Board were responsible for stabilizing RBS. Nevertheless, the sole reason for survival was the bail-out by the government. The other interview participant concurs with this and further stated that, the new management board showed a clear vision and strategy which in turn empowered employees. This is how it was possible to reach the newly set goals which were necessary for the bank to survive.

The reason for the different outcomes for RBS and HSBC was the difference in leadership and management styles. Additionally, the decision by Mr. Goodwin to put his own interests before the long-term success of the bank calls his competency and integrity into question. Fred Goodwin acted alone in managing the bank with no controlling force challenging his decisions and strategy. His only goal was to grow the company at a quick rate without consideration of the risks RBS became vulnerable to. Other banks, like HSBC were managed by leaders who had visions which included sustainable growth and factored in risks associated with fast growth. Additionally, they were supported by Boards who held them accountable for their actions. The Boards of other banks also made sure that they were complying with corporate governance principles and not neglecting the responsibilities they had to the involved stakeholders.
8.4 HSBC Interview Summary

In 2008 Michael Geoghegan was the CEO of Hongkong and Shanghai Banking Corporation Holdings PLC. He was perceived as a strong and positive leader who successfully navigated the bank through the financial crisis in 2008. Mr. Geoghegan was highly involved in the development and implementation of the company’s strategies during that time. The strategy and the plan on how it should be executed was made in cooperation with the employees working in senior management. Mr. Geoghegan was also aware of the strengths of these strategies and expected the people who held positions in senior management to know them as well. They were then able to manage their teams independently and accordingly.

The participants of the interview came to two different conclusions when asked how the Board of Directors response to the crisis impacted the management style of the CEO. The first perspective was that there was no visible change in the management style during and after the crisis. The reason for this was the high confidence in the abilities, experience and know-how of Michael Geoghegan. The second viewpoint was that the Board of Directors started to become more visible and active in contributing to HSBC’s business. The Board’s actions further supported Mr. Geoghegan and led him to be able to focus on the core competencies, strengths and strategies within the bank.

The Board’s intervention during the crisis did not have a huge impact on the outcome for HSBC. They were more actively involved in following the developments in the market, analyzing the risks in the banking industry which had the potential for destabilizing HSBC, and overseeing Michael Geoghegan. Due to the fact that the bank had a strong capital position, good liquidity, a variety of funding sources, good asset quality, geographic and product diversification it was possible to absorb the shock of the financial crisis and continue the effective strategy towards attaining set goals.

Even though HSBC came through the crisis without requiring a bailout, the bank suffered due to the systemic problems of the industry. There were crucial lessons to be learned which all banks took note of, these included:

- staying focused on core businesses
• ensuring sufficient capital to absorb shocks
• ensuring high asset quality
• ensuring diversification in the areas funding and liquidity
• the need for Boards to challenge their CEO’s, especially if they have an autocratic leadership style
• the need for competent Boards who apply the principles of good corporate governance

HSBC had an effective strategy which was working towards getting through the financial crisis with minimal damage. Due to this there were no changes made in their corporate governance, leadership, and management practices.

The Board definitely contributed to the survival of HSBC. They supported the CEO and other members in the management team to ensure that the long-term strategy for sustainable growth was executed. By monitoring and controlling the development and implementation of the strategy by the senior executives, HSBC managed to get through the financial crisis without any major setbacks. Both governing forces, the Board and the CEO were responsible for and contributed to this success.

A crucial reason for the success of HSBC was the clearly outlined strategy. It was focused on the core strengths of the business regarding customers, products, and geographical locations. RBS was less successful, because they had a strategy which focused solely on expanding their business. In addition to that the implementation and execution of the strategy was not effective and sloppy. RBS started to acquire banks internationally, such as Citizens Bank US and ABN Amro in The Netherlands to grow at a quicker pace. They were also known to throw their balance sheet behind transactions which was irresponsible and tremendously risky. This strategy finally ensured that RBS became the largest bank on the globe (measured by total assets) in 2008. At the same time the strategy certainly did not pay off in the long term, as it put the bank into the position of having to be bailed out by the government when the financial crisis hit the UK banking sector.
8.4.1 Analysis

By interviewing RBS senior managers it became very clear that the combination of the leadership of Fred Goodwin and the failure of the Board to ensure oversight of his managerial actions was the primary reason for why RBS had to be bailed out. The authoritarian leadership style which was employed lead to the CEO holding all the power in the organization. Furthermore, he instilled fear in other members of senior management to speak out against the strategy being pursued during that time.

The only reason why RBS was able to survive was due to the bailout by the government and the support of the Bank of England. As soon as the Board was overturned Fred Goodwin was removed from his position as CEO. The newly appointed CEO, Stephen Hester was considered to be a more participative leader. He worked in cooperation with the senior management team to develop a more conservative strategy for RBS. Additionally, the new members of the Board were more diligent in terms of oversight. They closely monitored Mr. Hester’s implementation of the new strategy and ensured the compliance of a stricter corporate government policy at the bank.

The interviews with senior managers from HSBC support the claim that the CEO of HSBC during the financial crisis in 2008, Michael Geoghegan had a delegative leadership style. This means that he was working together with the members in the management team and the Board members of HSBC. He empowered the other employees to have self-initiative, gave them the power to make their own decisions and therefore fostered a productive and effective work environment. Together they developed a strategy which allowed the company to grow at a slow but sustainable rate. Additionally, they took the risks which HSBC was exposed to, due to the accommodative regulations in the UK banking sector, very seriously.

By applying a delegative of leadership style Michael Geoghegan lead HSBC through the crisis without any severe damage to the bank. The Board of Directors supported Mr. Geoghegan’s leadership style, which is why he remained in the position of the Chief Executive Officer during the crisis. The Board worked closely with Michael Geoghegan and supervised him, in addition to the other senior managers to make sure that there were no breaches in complying with the set regulations for corporate
governance. This is the reason for HSBC’s success during the UK banking crisis in 2008.

As the interview participants were part of RBS and HSBC during the financial crisis and held leadership positions in the banks during that time, they contributed to the outcome of the crisis. In all interviews the responsibility was placed on the CEOs and the Boards. Combining the systemic problems in the banking industry and the bonus culture fostered over the past decades, employees in senior management were not incentivized to challenge upper management. The participants were not specifically asked about the active involvement of senior management in contributing to the crisis in the interviews. Nevertheless, senior managers hold a certain amount of responsibility for the response during the crisis and the outcome thereafter.

9 Conclusion, Recommendations and Limitations

9.1 Conclusion

The conclusion which can be drawn from this study is that leadership and management are closely linked to the direct success or failure in a bank.

The example and view that RBS provided was that the autocratic leadership style which was demonstrated by Fred Goodwin was detrimental and contributed to the crash of the bank. The hostile work environment which an autocratic leadership style fostered led to the CEO being the only person making strategic and managerial decisions. The main issue that occurs when one person makes such important executive decisions is that there is no open exchange and communication of different opinions and solutions. The CEO ends up dictating the direction of the bank. This does not mean that an autocratic leadership style can never be successful, but combined with personality traits which Fred Goodwin demonstrated autocratic behavior cannot lead to good outcomes.

The leadership by the Board of Directors and Stephen Hester demonstrated during the crisis was exactly what was needed to allow the bank to survive. By securing the support of the government the Board managed to buy some time. After that RBS was in the adaptive phase. This phase was navigated by Mr. Hester who was able to
foster change and adoption, embrace the disequilibrium and uncertainty created by it and generate leadership among the other members in the management team. His leadership style was less autocratic and more participative than that of the former CEO. This created an inclusive work environment which allowed the other senior managers to be part of making strategic decisions and therefore enriched the work environment and ensured effective work and decision making processes.

On the other hand, HSBC’s example showed that a delegating leadership style was beneficial and even vital to create strong leadership positions. Michael Geoghegan empowered the members of his management team to be strong and positive leaders. By allowing them a certain amount of responsibility and decision making power they could grow as leaders which created an even stronger culture of positive leadership at HSBC. By allowing people to have a certain amount of power Mr. Geoghegan additionally promoted the idea of exchange between the members in senior management and throughout the business, in the form of constructive criticism and feedback. This enabled the Board of Directors to carry out its control function in a productive way. The confirmation that HSBC was operating with an effective and enlightened leadership style became clear when the crisis hit the UK banking sector. As most banks did, HSBC became strained financially. Nevertheless, the important difference was that there were no changes in senior management, nor in their leadership style. The bank continued to pursue the same strategy and was correct to do so, because it contributed to their survival.

By analyzing the leadership styles demonstrated at RBS and HSBC during the crisis the conclusion can be drawn that an autocratic leadership style can lead to adverse effects on a bank and can even cause it to fail. That is not to say that acting autocratically is always a negative thing. A leader has to be decisive and be able to take autocratic actions when necessary. There is no “correct” leadership style for the banking industry as such. The choice of leadership style very much depends on the situation in combination with the leader’s personality traits.

Sound corporate leadership and management are further essential, because they count towards the overall corporate social responsibility a bank has towards its stakeholder. RBS certainly demonstrated poor judgement in corporate leadership and management. The extent of this problem lead to CSR issues. The corporate web
page for RBS indicated that the bank has become more diligent regarding this issue. The turnaround on this issue should be treated with caution, as banks remain for-profit companies who have shareholders to answer to whose interest is mainly focused on the return on investment.

9.2 Recommendation

As mentioned before there is no one perfect leadership style. To decide which leadership style should be applied it is crucial that factors such as personality traits are included in the decision. For example, someone who is prone to risk-taking behavior will likely transfer this to their leadership style.

Additionally, it is very important to create a work environment where there is active communication and exchange between the members. An openness to different viewpoints and ideas generates more valuable and better strategies for the company.

9.3 Limitations

During the process of reviewing and analyzing the data, the study was faced with several limitations hindering the clearance of the objectivity of the conclusions based on conducted tests.

The first identified restraint was the small sample size. Due to the fact that only two employees of each bank were interviewed the results may not be representative for all people working in senior management at RBS and HSBC.

A further issue is the subjectivity of the answers. Due to the personal involvement of the participants in the on goings during the UK banking crisis in 2008 the answers may be skewed.

Finally, there is also a lack of certain generalizability of these cases. Two UK banks were analyzed in the course of this study. While they are a good representation of what banks were dealing with during the crisis, the outcome of this study should not be transferred to the whole industry. To achieve a better sense of the specific differences among banks during that time, a more comprehensive analysis of the different institutions is required.
Bibliography


Appendices

Interview A

RBS Interview 1 (24.02.2016)

My name is Vivian Tsolakis and I am currently in my final semester (6. semester) at Modul University in Vienna, Austria. I am pursuing a Bachelor of Science degree majoring in International Management. As the final part of my studies I am currently working on a bachelor thesis. The topic of my thesis is management, leadership and CSR in the UK banking sector and I am very interested in researching RBS. To elevate the thesis and make the findings more interesting and relevant, primary research is necessary. I would appreciate if you could give me your time and expertise and answer the questions below.

All participants of this study must take part voluntarily. Their answers to the interview will be kept anonymously and therefore no responses will be attributed to any individual answering the interview questions. Furthermore, after responding to the interview questions all participants have the option to withdraw their answers at any time.

1. How would you describe the corporate behavior and personality of Fred Goodwin at the time of the global financial crisis in 2008? Was he a leader* or a manager*?

*Definition Leader: Envisions and articulates the purpose or mission of an organization and the strategy for attaining it.

*Definition Manager: Oversees the implementation of the purpose or mission of an organization.

Fred Goodwin was a very strong leader, who was not open to challenge or seeking consensus. He ran the bank his way and nobody wanted to challenge him or get in the way of his plans.

2. How did the Board of Directors’ response to the global financial crisis impact the management style of the CEO at RBS?
The Board was effectively turned over after the global financial crises. The government stepped in to bail out the bank which would otherwise have failed. As the dominant shareholder and with Board representation, Fred Goodwin was removed as CEO and the government appointed Stephen Hester, and at the composition of the Board was also changed. Under new management appointed by the new Board, the new CEO adopted a very different style, much more of a manager focused on execution of a strategy aimed at sorting out the bank's problems and returning the bank to profitability.

3. To what extent did the Board’s intervention during the financial crisis influence the outcome for RBS? (and the bank's eventual bail out by the government)

As the severity of the financial crisis became apparent and the dire financial position of the bank became clear, it was critical that the Board intervene to enlist the support of the government and the Bank of England to ensure RBS survival and the stability of the UK banking system.

4. What were the crucial lessons from the financial crisis, and the resulting changes in leadership, management practices and corporate governance? How are they visible in the behaviors of the current management and leadership of RBS?

The lessons around basic banking disciplines were stark. These included ensuring:

- adequacy of capital to absorb financial shocks
- sound asset quality
- minimal asset concentrations eg RBS was excessively exposed to real estate
- adequacy of liquidity and diversity of funding sources

Beyond this:

- a clear strategy which was based on good business judgement backed up by robust analysis and forecasts
• a CEO who would accept challenge and be prepared to consider alternative views
• a Board prepared to challenge the CEO and demonstrate good corporate governance

5. To what extent did the leadership of the CEO and the governance practices of the Board ultimately contribute to the survival of RBS? (requiring government support)

The new leadership and Board of RBS appointed after the global financial crisis were instrumental in the survival of RBS. They demonstrated a clear vision of the purpose for the bank’s existence and strategy to accomplish that and this provided unambiguous guidance for all employees of the bank as to the behaviors required to fulfill the goals of the bank.

6. What differentiated the leadership and management style of RBS from that of banks which did not require a bail out (like HSBC)?

Prior to the financial crisis, RBS leadership and management style personified by Fred Goodwin was leadership without accountability and there was an unhealthy arrogance about his intimidating management style which instilled fear into subordinates. He pursued a simple strategy of growth but with no strategic vision beyond that. Other banks seem to have more approachable CEO’s with clearer visions for their banks and supported by Boards with stricter disciplines around their corporate governance responsibilities.

**Interview B**

RBS Interview 2 (24.02.2016)

My name is Vivian Tsolakis and I am currently in my final semester (6. semester) at Modul University in Vienna, Austria. I am pursuing a Bachelor of Science degree majoring in International Management. As the final part of my studies I am currently working on a bachelor thesis. The topic of my thesis is management, leadership and CSR in the UK banking sector and I am very interested in researching RBS. To elevate
the thesis and make the findings more interesting and relevant, primary research is necessary. I would appreciate if you could give me your time and expertise and answer the questions below.

All participants of this study must take part voluntarily. Their answers to the interview will be kept anonymously and therefore no responses will be attributed to any individual answering the interview questions. Furthermore, after responding to the interview questions all participants have the option to withdraw their answers at any time.

1. How would you describe the corporate behavior and personality of Fred Goodwin at the time of the global financial crisis in 2008? Was he a leader* or a manager*?
   *Definition Leader: Envisions and articulates the purpose or mission of an organization and the strategy for attaining it.
   *Definition Manager: Oversees the implementation of the purpose or mission of an organization.

   Fred Goodwin was a very a very strong leader who would not be challenged and even came across as a bully.

2. How did the Board of Directors’ response to the global financial crisis impact the management style of the CEO at RBS?

   The Board changed and so did RBS. Stephen Hester was appointed CEO and he came in with a clear mission to fix problems in contrast to the aggressive and cavalier growth agenda of Fred Goodwin.

3. To what extent did the Board’s intervention during the financial crisis influence the outcome for RBS? (and the bank’s eventual bail out by the government)

   The perilous state of RBS at the time of the crisis was so severe that responsibility for the bank was taken out of the hands of management and the Board, and the government took over.
4. What were the crucial lessons from the financial crisis, and the resulting changes in leadership, management practices and corporate governance? How are they visible in the behaviors of the current management and leadership of RBS?

The lessons arising from the crisis were stick to good solid banking principles in how the bank does business, do the business you know and understand and demonstrate discipline and have good controls. This is how the bank is now being managed.

5. To what extent did the leadership of the CEO and the governance practices of the Board ultimately contribute to the survival of RBS? (requiring government support)

At the time of the crisis, not at all. The new management and Board played a big role in stabilizing the bank but survival was only possible with government support.

6. What differentiated the leadership and management style of RBS from that of banks which did not require a bail out (like HSBC)?

Fred Goodwin ran the bank as his own enterprise without material accountability to the Board. Other banks which survived without a bail out from the government were run and managed according to commonly accepted management and corporate governance principles.

Interview C

HSBC Interview 1 (25.02.2016)

My name is Vivian Tsolakis and I am currently in my final semester (6. semester) at Modul University in Vienna, Austria. I am pursuing a Bachelor of Science degree majoring in International Management. As the final part of my studies I am currently working on a bachelor thesis. The topic of my thesis is management, leadership and CSR in the UK banking sector and I am very interested in researching RBS. To elevate the thesis and make the findings more interesting and relevant, primary research is
necessary. I would appreciate if you could give me your time and expertise and answer the questions below.

All participants of this study must take part voluntarily. Their answers to the interview will be kept anonymously and therefore no responses will be attributed to any individual answering the interview questions. Furthermore, after responding to the interview questions all participants have the option to withdraw their answers at any time.

1. How would you describe the corporate behavior and personality of Michael Geoghegan at the time of the global financial crisis in 2008? Was he a leader* or a manager*?
*Definition Leader: Envisions and articulates the purpose or mission of an organization and the strategy for attaining it.
*Definition Manager: Oversees the implementation of the purpose or mission of an organization.

During the global financial crisis, Michael Geoghegan provided a strength of leadership as is required to overcome the significant challenges presented in a time of crisis. He led strongly from the front, and expected his direct reports to manage and execute.

2. How did the Board of Directors’ response to the global financial crisis impact the management style of the CEO at HSBC?

The Board took confidence in Michael’s knowledge of and significant experience in the banking industry and with HSBC. As a result, there was no perceptible change in the management style evident throughout the bank after the global financial crisis.

3. To what extent did the Board’s intervention during the financial crisis influence the outcome for HSBC? (no bail out)

Whilst the Board actively followed developments in the markets through the global financial crisis, the profile of HSBC’s business did not expose the bank to the direct risks which resulted in the failure or instability of other banks
such as Lehman Brothers, Citigroup and RBS. Therefore, the Board could focus more on the systemic risks in the banking sector and how they might challenge the bank. However, HSBC was on such a strong financial footing with a solid capital position, good liquidity with diversified funding sources, good asset quality and strong geographic and product diversification that the bank was well insulated from the shock to the financial system.

4. What were the crucial lessons from the financial crisis, and the resulting changes in leadership, management practices and corporate governance? How are they visible in the behaviors of the current management and leadership of HSBC?

As I commented in response to your previous question, HSBS fared well through the global financial crisis because of the profile of our business. Some of those banks which did not fare well were disadvantaged by:

- insufficient capital to absorb the shock e.g. Lehman Brothers
- poor asset quality which deteriorated quickly after the crisis started e.g. RBS
- inadequate diversification in sources of funding and liquidity e.g. Northern Rock
- autocratic CEO's need strong Boards to challenge them and provide balance
- without competent Boards supported by good corporate governance disciplines, CEO's can make poor strategic and business choices

As we were not as adversely affected by the global financial crisis as other banks we did not experience any significant management change as a direct consequence. We had a management change at the end of 2010 when Michael retired but this was not connected to events of 2008.

5. To what extent did the leadership of the CEO and the governance practices of the Board ultimately contribute to the survival of HSBC?

It is clear that Michael Geoghegan, well supported by his management team, had the bank well positioned across all the key metrics for prudent and long
term successful bank performance. The Board, no doubt, played a significant role in monitoring and managing the evolution and execution of all these strategies. I would therefore say that both the CEO and the Board played central roles in contributing to the success and survival of HSBC.

6. What differentiated the leadership and management style of HSBC from that of banks which did require a bail out (like RBS)?

I think HSBC had developed clearer and more robust strategies for growth than many other banks. Therefore, HSBC's growth was founded on our core strengths in terms of customers, products and geographies. In contrast, other banks such as RBS seemed to be in pursuit of growth for growth's sake, without and strategic logic. e.g. acquisition of Citizens Bank in the US, acquisition of ABN Amro in The Netherlands. They were known as deal junkies and would lead transactions and throw their balance sheet behind transactions which other banks would not do. That's how RBS became the largest bank in the world in 2008 as measured by total assets.

Interview D

HSBC Interview 2 (21.03.2016)

My name is Vivian Tsolakis and I am currently in my final semester (6. semester) at Modul University in Vienna, Austria. I am pursuing a Bachelor of Science degree majoring in International Management. As the final part of my studies I am currently working on a bachelor thesis. The topic of my thesis is management, leadership and CSR in the UK banking sector and I am very interested in researching RBS. To elevate the thesis and make the findings more interesting and relevant, primary research is necessary. I would appreciate if you could give me your time and expertise and answer the questions below.

All participants of this study must take part voluntarily. Their answers to the interview will be kept anonymously and therefore no responses will be attributed to any individual answering the interview questions. Furthermore, after responding to the interview questions all participants have the option to withdraw their answers at any time.
1. How would you describe the corporate behavior and personality of Michael Geoghegan at the time of the global financial crisis in 2008? Was he a leader* or a manager*?

*Definition Leader: Envisions and articulates the purpose or mission of an organization and the strategy for attaining it.

*Definition Manager: Oversees the implementation of the purpose or mission of an organization.

Michael Geoghegan provided positive leadership at HSBC. He knew his strengths and strategies and expected everyone on his team to be the same and manage their teams accordingly.

2. How did the Board of Directors' response to the global financial crisis impact the management style of the CEO at HSBC?

After the global financial crisis, the Board became more actively visible and engaged in the bank's business. That seem to make MG even more focused on the bank's core competencies, strengths and strategies.

3. To what extent did the Board's intervention during the financial crisis influence the outcome for HSBC? (no bail out)

I don't think the Board really intervened. It looks like the y were more actively involved but in the end, that was just observing MG carrying on with execution of the same strategy in the same way.

4. What were the crucial lessons from the financial crisis, and the resulting changes in leadership, management practices and corporate governance? How are they visible in the behaviors of the current management and leadership of HSBC?

The lessons were simple - stick with the business you know and what you are good at. There were no changes in leadership or management practices. The bar was raised on the level and intensity of corporate governance. There was no significant management changes at HSBC. The leadership team and their style remained quite stable and predictable.
5. To what extent did the leadership of the CEO and the governance practices of the Board ultimately contribute to the survival of HSBC?

The leadership and the Board can be proud of the significant role they played in running and managing HSBC tightly so as to deliver it successfully and intact through the financial crisis.

6. What differentiated the leadership and management style of HSBC from that of banks which did require a bail out (like RBS)?

HSBC had a clear and unambiguous strategy. RBS and other banks were less precise and sloppy, even careless in the execution.