

## PREFACE: INTRODUCTION AND OVERVIEW

### WISE WARNING

“It is an ancient doctrine that tragedy comes of hubris. In our age, mankind collectively has given itself over to a degree of hubris surpassing everything known in former ages.”

Bertrand Russell, *Portraits from Memory and Other Essays* (1956)

### HUBRIS

Hubris can cause destructive, sometimes tragic, things to happen. This is because hubrists arrive at false ideas about their capabilities. They become deluded by self-worth, over-estimate what can go right, under-estimate what can go wrong, and are arrogant and contemptuous towards the advice and criticism of others. Hubristic leadership is fuelled by prior successes and praise, it flourishes where followers collude, conform and comply, and where effective restraining forces and preventive structures are lacking. It also emerges out of complex interactions between people, processes, systems and structures that can cause strengths to morph into weaknesses and bring about unintended negative consequences. Hubristic leadership in business and politics invites nemesis. With hindsight, the pattern of rise and fall appears self-evident. A question which is often asked – as did Her Majesty the Queen when she visited the London School of Economics just after the financial crash and inquired about the experts’ lack of foresight – is why doesn’t anyone see it coming?<sup>i</sup> Hubris can lead to bad things happening not because there is a straightforward, linear cause-and-effect relationship between hubris and nemesis, rather hubristic leaders create willingly the conditions out of which unintended negative outcomes can and do emerge.

## GOOD LEADERSHIP?

If hubristic leadership is bad leadership, then what does good leadership look like? Here are some pointers and recommendations: (1) have a positive attitude: ‘whatever you do have a “lean forward” mindset; don’t be afraid to compete; don’t be afraid to make a decision. And whatever you do, don’t be a bystander. Whatever it is – try. If you lose, pick yourself up, try again and move on’; (2) know what you are doing: ‘whatever you do, know your field. Information is knowledge. Knowledge is confidence. And confidence is power. I would add that many times you have to be lucky, but luck, when combined with preparation, only increases your chances for success’; (3) believe in teamwork: ‘teamwork is critical for many endeavors. It is not just about you. Successful organizations rely not on stars but on a team and how the team comes together. So, support your family and colleagues. They are your team’; (4) reward good work: ‘pay fairly and pay them in stock, so everyone shares in the upside together and expect them to think, act and behave like owners because owners protect the culture’; (5) do the right thing: ‘integrity: the good guys do, in fact, win. You grew up in an environment with WorldCom, Tyco and Enron [business scandals]. The world today is desperate for people with integrity. Integrity and quality people carry the day. The key is to always fall back on what’s right. When in doubt, do the right thing. This always pays off in the end’.<sup>ii</sup> These are extracts from the Commencement Address given to students by Richard J. Fuld CEO of Lehman Brothers at his alma mater, the University of Colorado Boulder in spring 2006. On 15 September 2008, Lehman Brothers filed for Chapter 11 Bankruptcy. At Lehman Brothers’ zenith, Fuld was lauded as a hero; at its nadir he was condemned as a villain.

## RICHARD FULD’S RISE

After a false start in a career with the US Air Force, Fuld ‘stumbled into international business which got [him] going on a life-long career with Lehman Brothers’<sup>iii</sup> where he started out as a

trader in 1969. He obtained an MBA from Stern School of Business in 1973. He soon became highly proficient in fixed-income trading and rose rapidly to become supervisor of both the fixed-income and the equities divisions by the age of 37. Fuld was a ‘very smart guy’ and one of Wall Street’s supreme traders. He was nicknamed the ‘Gorilla’ and had a toughness that fitted in well with Lehman Brothers’ cut-throat culture.<sup>iv</sup>

By 1994 Fuld had become CEO, and by 1996 Lehman Brothers’ return on equity was up to 14 per cent from a 3 per cent low just after its spin-off from American Express in 1994. He steered the business through the 1997 Asian financial crisis. With the 2003 acquisition of the money management firm Neuberger Berman in a \$2.63 billion deal, Fuld had realized his dream of diversifying out of the bond market, putting Lehman Brothers on an equal footing with Morgan Stanley, Merrill Lynch and Goldman Sachs. Fuld’s leadership was instrumental in transforming the company. By 2007 Fuld’s remuneration package had reached over \$22 million. He was named number one CEO in the Brokers and Asset Managers category by *Institutional Investor* magazine, was ranked by *Barron’s* amongst the top 30 CEOs, and was, in the words of Fox Business correspondent Charlie Gasparino, nothing less than ‘Wall Street Royalty’.<sup>v</sup>

## RICHARD FULD’S DEMISE

Lehman Brothers’ Achilles heel was its \$40 billion, highly illiquid, proprietary real estate business. When the markets began to wobble and the sub-prime crisis materialized, it hit Lehman Brothers badly. The firm needed to shed assets in order to survive. Fuld refused to sell.<sup>vi</sup> He was a ‘Lehman Lifer’ and his persona and identity were wrapped up in a business he had worked in for two decades and led for 14 years. He stuck by Lehman Brothers through thick and thin. He was there in 1969 when Robert Lehman himself passed away, when it merged with Kuhn, Loeb & Co. in 1977, when it was acquired by American Express in 1984

and then spun off by them in 1994, and there for 9/11 and its aftermath. A sale of Lehman Brothers would have taken a large chunk out of a gargantuan but brittle ego: ‘As long as I am alive, this firm will ‘never be sold’, he said in late 2007, the *Wall Street Journal* reported, ‘and if it is sold after I die, I will reach back from the grave and prevent it’.<sup>vii</sup> Fuld’s hubris allowed his unshakeable loyalty to the firm to spill over into the weaknesses of over-protectiveness and rigid intransigence.

As a person, Fuld was said by many to be aloof, distant and intimidating. His leadership style was a cocktail of indisputable capability and competence mixed with a hard-edged stiffness and bluntness. His brain power was such that he was nicknamed ‘The Digital Mind Trader’. In his interactions with staff, a monosyllabic response was the preferred idiom. When times were bad, he said they would get better and when times were good he said the same.<sup>viii</sup> He melded his energy, optimism and ambition with aggression, and if anyone was seen to be trying to hurt Lehman Brothers he would react with bloodthirsty rhetoric: ‘I’m soft, I’m loveable. But what I really wanna do is I wanna reach in, rip out their [short sellers’] heart and eat it before they die.’<sup>ix</sup> Fuld’s pride in Lehman was such that his capabilities and self-confidence spilled over into conceit and over-confidence.

Experts and commentators at the Congressional hearing into the firm’s collapse flagged up flawed governance and culture at Lehman Brothers, a situation that was exacerbated by a weak regulatory framework. According to Ben Bernanke, Chairman of the Federal Reserve Bank, Lehman Brothers was able to operate without any robust consolidated supervision and in a situation where no government agency had sufficient authority to rein them in and prevent dangers to the wider financial system.<sup>x</sup> Others at the hearing voiced concerns about the Lehman Brothers’ board which was ‘too old, had served too long, was too out of touch with massive changes in the industry, had too little of their own net worth at risk, and was too compromised for rigorous independent oversight’.<sup>xi</sup> The Congressional hearing also picked up on a flawed

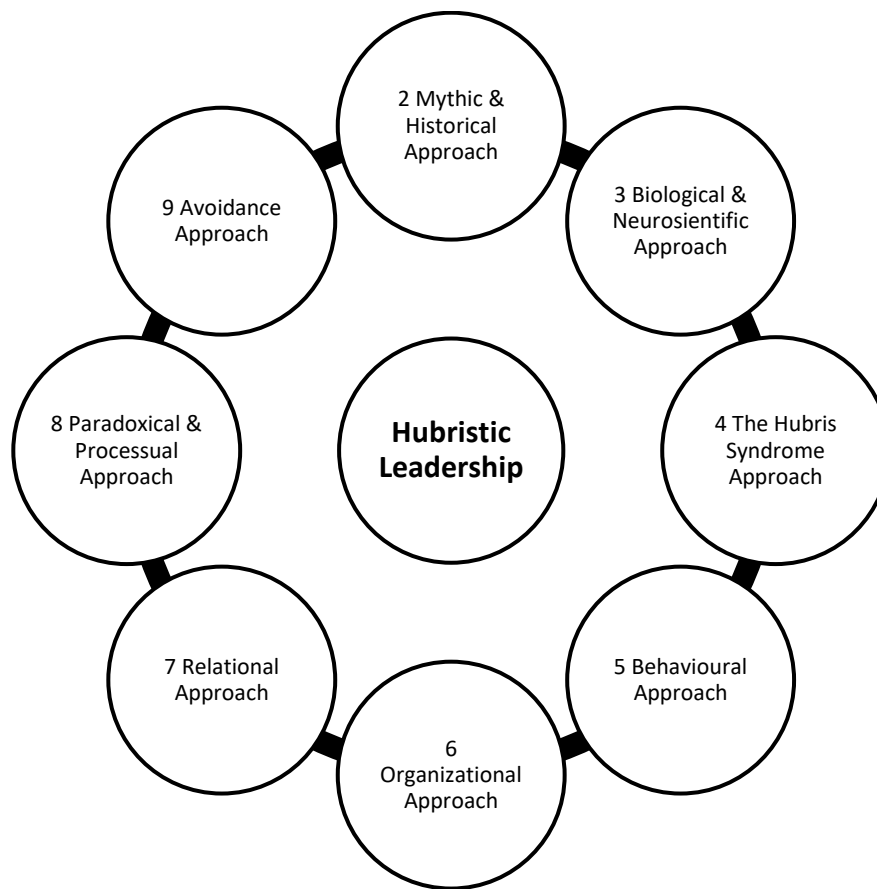
strategy. Lehman Brothers was overly aggressive and over-confident in using leverage and debt to finance high-stakes investments. It found itself in this position not by accident but as a result of a high-risk gamble, intentionally and volitionally entered into by its senior leadership team.<sup>xii</sup> Lehman Brothers was operating in a weakly regulated environment in an inherently volatile business context and had become organizationally hubristic.

After the crash, Fuld appears to have been in denial, unable to accept that what had happened was actually a ‘bankruptcy’. In Fuld’s narrative, Lehman Brothers suffered from nothing more than a short-term liquidity freeze and if the Secretary of the Treasury, Hank Paulson, had not chosen to pick ‘winners’ and ‘losers’ and, in picking a winner, had bailed out Goldman Sachs and, in picking a loser, let Lehman Brothers go under, he thought they (Lehmans) would still be in business.<sup>xiii</sup> At the congressional hearing, Fuld blamed the news media, short sellers, the government and the ‘run on the bank’, but he never really blamed himself.<sup>xiv</sup> Even if others were at all culpable, in the assessment of many it was Fuld who played the principal part in creating the conditions that invited nemesis.<sup>xv</sup> The ultimate hallmark of hubris is a denial of responsibility for what went wrong. For all that, Fuld was not impervious to public perception – shortly after the crisis at a rare social appearance with fellow bankers, he self-mockingly referred to himself as ‘the most hated man in America’.<sup>xvi</sup> Fuld’s hubristic rise and demise was complete.

## UNDERSTANDING HUBRIS

This book is about understanding the characteristics and causes of hubristic leadership and how to avoid its potentially destructive, and sometimes catastrophic, consequences. It is about trying to understand what went wrong in Lehman Brothers, at Long Term Capital Management, at Royal Bank of Scotland (RBS) and Halifax Bank of Scotland (HBOS), in Deepwater Horizon, in the Iraq invasion in 2003, and many others. The book begins by putting hubristic leadership

in perspective (Chapter 1) and then explores hubristic leadership from various angles (Chapters 2– 9) (Figure 0.1).



**Figure 0.1** Overview of the book: approaches to the study of hubristic leadership

The book's precepts are that it is early days for hubristic leadership research, there is no definitive view on it, and any claim to exclusive intellectual authority on the part of any one academic discipline might be seen as an act of hubris in itself, hence the need for multiple approaches. The main thrust of the book is that the pattern of hubris-inviting-nemesis is archetypal in human affairs and that hubristic leadership appears subtly different depending on the lens through which it is viewed. Each of the various approaches offers different insights into what is a perennial and pervasive phenomenon and process. The book's practical concern is how to stop hubris from happening in the first place.

## NOTES

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