



WHITE PAPER:

A LOOK AT CREATIVE LEADERSHIP IN THE CURRENT ECONOMIC CRISIS

June 2009

(Working Paper)

CONTENTS

- **INDUSTRY ANALYSIS: LESSONS FOR ADVERTISING**
- **INSIGHTS FROM SELECTED BERLIN SCHOOL FACULTY**
 - **CREATIVE: JEAN-MARIE DRU, AKIRA KAGAMI, KEITH REINHARD**
 - **ACADEMIC: JEAN-PHILIPPE DESCHAMPS, STUART DIXON, JEAN-MARIE HILTROP,
WERNER SEEBACHER**
- **COMPLETE WHITE PAPER**

Professor Doug Guthrie, PhD
Academic Director
Berlin School of Creative Leadership

&

Professor David Slocum, PhD
Special Advisor to the Academic Director
Berlin School of Creative Leadership

CREATIVE LEADERSHIP IN THE CURRENT ECONOMIC CRISIS:

INDUSTRY ANALYSIS: LESSONS FOR ADVERTISING

What does creative leadership have to say to the advertising industry about the current economic crisis? We present here three broad lessons.

First, like those in other industries, advertising agencies, groups and affiliated firms must analyze their organizational designs and business models. Internal audits and the need to cut fat from budgets are only an initial if unavoidable step. Just as the crisis has revealed how, for banks and corporations, the issue is not ownership per se, the upshot of the crisis for advertising is not a wholesale repudiation (or validation) of big agencies or agency groups. Instead, regardless of size, the more salient value should be openness to building multiple and flexible relationships and cultures of creativity based on analyses of complex environments.

Incentive structures and market behaviors that are more viable and efficient are but two of the areas in which creative leadership in advertising can respond. Some agencies are already exploring new models that shift from traditional fixed percentage fees toward alternatives like performance- or value-based compensation and equity stakes. Adjusting old behaviors and organizational structures like these is challenging – particularly when clients are themselves anxious and wary of change. Yet today's environment warrants close analysis of complexity that yields changes in the way agencies are structured and do business.

Second, the economic crisis is occurring at a time when technological developments are already demanding far-reaching changes in agencies and across the industry. There is no single approach, or priority of scale or scope, that current conditions urge for reconfiguring the prevailing media or creative models within the industry. Rather, the imperative is to re-examine structures and experiment in areas like consulting, media, and product development.

For some, this entails expansion into the consulting and creative solutions space. For others, it involves a more decentralized and adaptable approach to media that relies on the varied and consistent use of outside and freelance talent rather than in-house resources. For all, it means agencies that better align their competencies, particularly in media and technology, with strategies and goals. Blinkered engagement

with economic conditions, much less more historically significant changes in media, is an unrealistic long-term option.

Third, the ethos guiding agencies should change. In May, Saatchi & Saatchi's CEO, Kevin Roberts, wrote of the need today of "winning ugly," which he described as "being authentic, transparent, passionate and stripped down to the essentials." In doing so, he shined light on the importance of agency flexibility, decisiveness, risk-taking, and self-evaluation. We endorse such a call for the identification and articulation of core values but believe it should be extended. Agencies need more fully to align structures and cultures with strategies and current conditions. They must also re-cast relationships accordingly with associated players in media and communication and, crucially, clients and consumers.

These financial, structural and strategic changes require a commitment to fostering a culture of creativity that helps all those in agencies to achieve their fullest potential. If the current crisis of banks and corporations questions our will to run the free market system we idealize, the parallel issue arises of our will to actually make and run the ad agencies and industry we aspire to. Success in realizing these aspirations turns on creative leadership that fully analyzes the complexity of organizational, industry and economic conditions and implements the resulting recommendations as substantively as possible in the organizational design and cultures of firms.

CREATIVE LEADERSHIP IN THE CURRENT ECONOMIC CRISIS:

INSIGHTS FROM SELECTED BERLIN SCHOOL FACULTY

Professor Jean-Philippe Deschamps

Berlin School of Creative Leadership & Professor of Technology & Innovation Management at IMD (Switzerland)



"In all industries, not just creative ones, the role of leaders is to stimulate the creativity of all the company staff, not just the so-called 'creatives', and to channel that creativity towards worthwhile purposes. In good times, staff creativity will naturally focus on meeting customers' needs more fully, thus creating market value. In bad times, the leader's role is to steer that creativity towards additional internal and external objectives, such as reducing waste thus costs, both within the company's processes and in its transactions with its clients. In so doing, leaders ensure that they maintain a vibrant 'can-do' culture in their company. Creativity is a great asset but it needs to be constantly stimulated and steered by management, whatever the circumstances."



Professor Stuart Dixon

Berlin School and Professor of Organisation & Strategy, Universiteit Maastricht Business School (Netherlands)

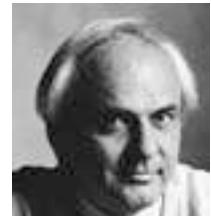
"Is necessity the mother of creativity?"

The recession has had dramatic consequences for many industries and it seems no sector remains untouched by its impact. But what of creativity? Surely in these hard times, firms are looking for innovative solutions to their current problems. Is necessity really the mother of invention or perhaps in this case, the mother of creativity? Theory tells us that declining sales need constant marketing to protect market share. If brands lose visibility, market share will also decline. However, in 2008 the United States has seen a cumulative decline in advertising of more than 14% (Newspaper Association of America), and this trend is being closely followed in Europe (Zenithmedia). Is there a future for the creative sector and creative leaders? Maybe! Despite the decline in advertising, internet (digital) advertising has grown by 20% in 2008 and by 2010 it is expected to almost double the current figure. In search of efficiencies, firms are looking for new forms of media that both cut costs but ensure reach. Creative leaders need to be aware of the changing strategies of their clients. Shifting toward digital media means a

change in the skills and competencies of the creative organization. Matching these competencies with the changing needs clients is essential for success in these times of crisis. So is necessity the mother of creativity? Certainly, needs are changing and markets seem to be responding to the change. Success will be determined by how quickly creative leaders can adapt to these new needs."

Jean-Marie Dru

President/CEO of TBWA Worldwide



"For years, people have been expecting companies to be more environmentally conscious and socially responsible. The crisis has indeed accelerated this need for change. As we enter a new era of increased corporate responsibility, our job will be to improve the interactions between the three levels of communications: product, brand and corporation.

Before the recession, a large majority of industries were already facing overcapacity. The recession has dramatically increased this factor. In this world of overcapacity, the way in which you enhance what you offer, the way in which you create more value around the supply side is vital. And it is our job to "conceptualize" what brands offer and effectively communicate it.

As we all know, the future can't be predicted, just imagined. That's why creative industries like ours should play an important role in contributing to the definition of larger futures for our clients' brands. This is what Disruption is about. Our other responsibility is to ensure that we are optimizing each point of contact between the brand and its audience. This is what Media Arts is about."



Professor Jean-Marie Hiltrop

Berlin School, Visiting faculty member of European School of Management and Technology's MBA Program (Germany), & Professor of Management in Copenhagen Business School's Executive MBA Program (Denmark)

"Some months ago, Sir Martin Sorrell warned the world that the economy is back in the 'bath' – a vicious recession that is hitting revenues of WPP, the world's second-largest advertising group. According to *The Times* (2009) it was Sir Martin who described the downturn of the early part of this decade as 'bath-shaped', meaning that growth would follow a U-shaped curve, in which it would be some time before activity picked up. The

world 'came out of the bath' in 2004, in his thinking, but five years on it has been time to bring back the metaphor.

What does this mean for managing talent? What does the recession mean to the creative industries? In a recent article, I suggest steps organisations can take to avoid the traditional pitfalls during a recession and recommend some smart moves to cope with current social and economic realities (Hiltrop, 2009). The key message is that managing people both inside and after 'the bath' will require a very different mindset as organisations will have to be much more frugal, think carefully about every expense and scrutinise every capital investment. At the same time, it is vital to ensure that short-term actions and decisions do not undermine the organisation's long term capability to grow and survive. For instance, the dangers of cutting development and training are greater than most managers may realise. Making these adaptations is hard but without it, little or no growth will occur. As Gratton (2009) points out, while many managers are adept at innovating products and services, few have been adept at innovating the practice of management itself. As a consequence, businesses are often cluttered with increasingly outdated ways of managing people and potential innovations such as virtual team technology are left unheeded.

Sir Martin Sorrell has predicted a tentative recovery for the economy in 2010 aided by the World Cup in South Africa, US congressional elections and the Shanghai Expo. But like most other marketing and advertising businesses, his company has been forced to cut jobs despite profits increasing by 3.8% to £747m in 2008. Smart move or pitfall? Coming out of the bath will tell."



Akira Kagami

Executive Creative Director of Dentsu Inc. Japan

"Firstly, change was inevitable with or without the recession. The factors we all know well - the spread of the Internet, mobile communication technologies, and the global environmental crisis - already had us on a course and the recession merely accelerated this. Change of unprecedented scale and speed, not unlike the recent flu outbreak, is affecting everyone on the planet, without escape. And more importantly, without end. The recession will end at some point, but change will continue.

How should we prepare for this new world? I do not like to make predictions, but I foresee philosophy and ethics becoming key in shaping the future market. Because the current state of change is almost exclusively human-induced, unlocking new methods will depend on a "social engineering" perspective - knowing how to deal with conduct of a population. This will be the FIRST age in which "impractical" studies such as philosophy and ethics become directly linked with pragmatic considerations for the industry."

Keith Reinhard

Chairman Emeritus of DDB Worldwide



“Some things will be changed, if not forever, at least for the foreseeable future. During the recession, people are discovering the joys of living with fewer or less expensive material things and the satisfaction of saving money. Sales of cookbooks are increasing, enrollment in cooking classes is up, and sales of board games are rising. Many of these new found pleasures are likely to sustain.

Another change that will likely continue is the increase in on-line shopping, which was already surging before the economic downturn. And value choices made during the recession may well continue to be the brands of continuing choice. Finally, having experienced the satisfaction of doing more with less, at least in material terms, we may see a significant move to a post-materialist society where the most successful marketers will be selling experiences more than goods.

The most important thing that will not change for marketers is the need to stay close to the consumer, especially as their value equations are changing. What else will not change is the importance of brand integrity. Generating and sustaining trust in a brand will be even more important in a world of on-line shoppers with myriad choices. Creativity is the most powerful force in business. New products and new experiences will always generate new business providing they are inspired by keen understanding of and clear-eyed anticipation of consumer needs and wants.

Short term planning should be balanced with long-term thinking. Creative people should lead change, not resist it. The biggest risk is to hope for a return to doing business as it has always been done.

Creativity can “de-position” a competitor whose traditional value-proposition now seems out of touch with the times. During tough times, creativity can also be used to appeal to emotions, including the use of nostalgia to remind people of better times or more specifically to remind people that we’ve pulled out of tough times before.

Tough times and tight budgets make creative people think harder, and more creatively and provide opportunity to grab share. When competitors are reducing ad spend, a creative marketer can win sales and friends who will stay with a brand after the recession ends.

Tough times should inspire us to be more creative in the use of the new media. Inviting consumers to interact with a brand on their handheld devices will be key to the future of

marketing. As the 20th century French painter and sculptor Georges Braque once said, "Limited means beget new forms, invite creation, make the style." Our limited means of today will surely inspire the new and better marketing forms of tomorrow."



Professor Werner Seebacher

Berlin School of Creative Leadership Professor of Accounting and School of Management and Innovation, Steinbeis University

"The global crisis has reached further industrial areas. Even the creative industries cannot close their minds to the new situation. Dropping demands lead to profit slumps on large scales. So, a concrete financial planning of the future development of an enterprise has become more relevant than ever. Clear planning with concrete figures means: compiling a complete and comprehensive forecast consisting of profit plan (planned profit situation), finance plan (planned liquidity situation) and budgeted balance sheet (planned balance sheet) of the enterprise. Only a proper presentation with figures of the expected or planned future development and the constant comparison of the actual results to the originally forecast figures enables an assessment of the situation. Like that an economic survival can be secured."

WHITE PAPER:

CREATIVE LEADERSHIP IN THE CURRENT ECONOMIC CRISIS

JUNE 2009 – WORKING PAPER

The current economic crisis has transformed the global economy. What does creative leadership have to say about how the crisis unfolded and how firms can take advantage of the new economic climate? In this essay we discuss three aspects of leadership in economic crises. First, we emphasize the importance of understanding and embracing complexity. We illustrate this issue through an examination of factors that led to the current crisis. Second, through an analysis of China's success in weathering the storm, we highlight the idea of exploring new economic models for the new economy. Third, we elaborate on the issue of organizational analysis and alignment and how important it is for leaders to address in building their organizations successfully.

Models of Leadership

The field of leadership most often focuses on vision and charisma as the keys to effective leadership. While vision is certainly important in effective leadership, charisma is far too often overemphasized as a crucial leadership trait. At the Berlin School of Creative Leadership (Berlin School), we place much more emphasis on complexity, vision, and organizational design or alignment. Ultimately, we are interested in helping leaders to foster a lasting culture of innovation in the firm. Building a lasting culture of creativity that transcends a given leader is the ultimate expression of effective creative leadership.

- **Complexity:** In today's global economy, complexity abounds. Creative leaders understand and embrace this complexity. However, truly creative leaders recognize complexity on two levels: (1) the macro-level complexity of the environment in which the organization is embedded; and (2) the micro-level complexity of the human dynamics on which the organization is built.
- **Vision:** Creative leadership begins with vision. But this is more than just defining an endpoint or goal. It is about the ability to see deeper into the future, to understand the complexity of the environment the organization is embedded in; to understand the risks and opportunities that this complexity offers; and to think creatively about a path to success.
- **Strategy:** Once a vision is in place, creative leadership depends on knowing your firm's strategy. Too often we find leaders who have only a vague sense of what their firm's

strategy is. Strategy is about knowing your firm's value proposition to the marketplace and knowing specifically how to marshal resources at the firm's disposal to deliver on that value proposition. Leaders must know these issues fundamentally, but they must also know how they are differentiating themselves from their competition to achieve those ends.

- **Alignment:** In our approach to creative leadership, we shift the discussion away from individualistic traits like charisma, personality, and style. Instead, we emphasize an analytical approach to organizational design focusing on alignment—creating harmony among all of the organization's component parts. In the end, leadership is about the ability to see all of this organizational complexity and effectively design the organization around an aligned set of structures that fit with the strategy and the environment in which the organization is embedded.
- **Culture of Creativity:** Ultimately, creative leadership is not about creativity in and of itself. It is about a leader's ability to design an organization that fosters and unlocks creativity across the organization. It is about facing the complexity of the global economy (and human psychology) and designing a set of processes that will help all members of the organization achieve their highest potential.

In the sections that follow, we analyze the current financial crisis to illuminate the importance of these leadership tenets.

Complexity

It is an interesting and important time to be thinking of the consequences of simplification. Economists, financial professionals, and finance and strategy professors all argue for simplification: the model of research—especially high status research in these fields—pushes for building theoretical models based on simple assumptions that can be modeled mathematically and then yield simple applications. The elegance of these models is beyond dispute; however, the current economic crisis shows just how costly simplification can be. The recent credit crisis experienced in the US and, subsequently, worldwide has raised a groundswell of concern over the wider economic impact on the US financial sector and the entire global economy. To be sure, the stakes are significant: In the Spring of 2008, when Federal Reserve Chairman Ben Bernanke defended the governmental bailout of Bear Stearns, which provided up to \$30 Billion to facilitate the bank's sale to JP Morgan Chase, he argued that the bailout was necessary because "the damage caused by a default by Bear Stearns could have been severe and extremely difficult to contain" for the US and global economy. Beyond the macro-economic issues, also at stake are the economic livelihoods of thousands of US consumers who face potential mortgage foreclosure brought on by the crisis. By the summer, some were predicting that the number of people that could experience such an outcome has not

been seen since the Great Depression: As James Parks, writing on behalf of the AFL-CIO, recently put it, “Millions of America’s homeowners are facing disaster after years of predatory lending. This is the first time since the Depression of the 1930s that so many U.S. homeowners owed more on their mortgages than their homes are worth.” The actual numbers are beginning to bear out this rhetoric. According to RealtyTrac, the number of foreclosures for the United States overall is up 100.1% over last year for similar periods; in the state of Massachusetts, foreclosures were up 11 times over last year; in the state of Delaware, foreclosures are up 800% over last year; in the state of Ohio, foreclosures for the year ended up at 83,230, an all-time record. By the time Henry Paulson was pulling together the plan that would constitute the greatest transfer of wealth from the government to the financial industry in the history of this nation, the extent and depth of this crisis had become indisputable.

Despite the declaration that we haven’t seen an economic crisis like this since the 1930s, this view represents collective memory loss. Perhaps more recent events were not this bad, but did we learn nothing from the Savings and Loan Crisis of the late 1980s? Is there any connection between this situation and the accounting crises of 2000-01 or the bailout of the airlines in 2004? The current crisis may indeed be worse than any we have seen since the Great Depression, but the narrative is actually fairly common in the recent history of American capitalism. The last 30 years of US economic history is littered with examples of two dissonant themes: On the one hand, we have a corporate sector advocating deregulation, singing the praises of a laissez-faire market, and criticizing government interference as fundamentally inefficient. On the other hand, we have corporations—and the population—asking for bailouts when they can’t survive the realities of the free markets they have advocated.

What do we make of crises like these? The first lesson to take away from this crisis is that, although many love the idea of the unfettered free market, we simply do not have the political will for a free market in advanced capitalist economies around the world today. Or perhaps we simply do not understand what a free market is. One of the key aspects of a well-functioning market is the ability of the market to discipline actors who make bad economic decisions. Just as markets can reward risky behavior, they must also be allowed to discipline risky behavior when the bet turns out to be wrong. The incentive system simply cannot work if we reward risky behavior but then bail out the economic actors when they end up on the wrong side of the risky outcome. The irony of our time is that corporations want it both ways: they want a deregulated system so that they can take on increasingly risky behavior in financial markets and then want a government handout when the same risky behavior that those deregulated markets allowed leads to potential bankruptcy.

The recent crises in the financial sector are clearly tied to this push and pull over deregulation and bailouts. The risky behavior that led to the S&L crisis of the late 1980s can clearly be traced to the Garn-St. Germain Depository Institutions Act of 1982, which

gave Savings and Loans institutions many of the same opportunities as commercial banks but not the same amount of federal oversight. As a result of this deregulation, S&L's were able to make very risky loans in real estate without Congress or the Federal Home Loan Banking Board (FHLBB) stepping in to shut them down for those risky loans or insolvency. Eventually the crisis grew to a level that Congress was forced to step in and bring forth an aid package that would cost the American tax payers somewhere between \$125 and \$160 Billion. What message does it send to the risk-taking actors—who lobbied for deregulation in the first place—if they can take risks and then count on being bailed out by the government?

In the current crisis, the relaxation of the Glass-Steagall Act over the course of the 1990s and the eventual repealing of the Act in 1999 with the passage of the Gramm-Leach-Bliley Financial Services Modernization Act allowed commercial banks to operate in a number of areas (insurance, investment banking, securities) that Glass-Steagall had forbidden. As a result, commercial banks could begin to deal on both sides of the fence: they could lend mortgages to their commercial customers and they could turn these same loans around and securitize them in the form of mortgage-backed securities, selling and trading them on the fast-moving securities markets that were emerging during the 1990s. While everyone was making money, all seemed copacetic. However, banks were now removed from the main incentive to be vigilant about risky borrowing behavior—they now no longer held the note on the house of the individual they loaned to. As a result, there was no disincentive for them to compete for business in a riskier and riskier loan pool. What was the downside? As long as the real estate market continued to rise, everyone would come out ahead; and if it didn't, they wouldn't hold the note on the foreclosed home anyway, as that mortgage had long since been packaged with a larger group of mortgages, securitized, and sold off to some other institution (which likely sold it again). Some individuals working in the industry have estimated that, by the time these mortgages had reached the end of their securitization life cycle, they would have been repackaged as parts of new financial instruments as many as 20 times. All the while, the risk assessment agencies that typically assess the viability of these financial instruments had incentives to keep the market booming, and they continued to award AAA ratings without a second thought. This type of risky behavior generated a great deal of wealth; but it was risky behavior nonetheless, and just as these risks yield rewards, they should also be subject to the discipline of the market when the system unravels. By what logic should the individuals gambling at this table receive a bailout?

Many in the industry and in political realms make the case that we must bail out the banks because (1) massive bankruptcies, like Bear Stearns and Lehman Brothers, would disrupt the economy and even cause a disruption of global markets (for which the US would be blamed); and (2) foreclosures would hurt American consumers, many of whom stand to lose their homes. Which brings us to the second culprit in this crisis: politicians, who also want it both ways. In essence, the politicians want to appease the corporations—many of whom donate significantly to their campaigns—but when it comes time to deal

with the results of the economic incentives they have created, they want to protect the American voter from these outcomes. The reality in both cases is that if we let the market work in a truly unfettered fashion, banks would have had the opportunity to record the record profits they have accrued over the last decade, but they would also have to be prepared to bear the consequences of the risky behavior that led to those profits. A painful S&L bankruptcy would have been a powerful lesson as to what can happen without federal oversight in the banking sector; and Bear Stearns' bankruptcy would be a valuable lesson in the realm of corporate oversight the same way that the debacles of Enron and WorldCom have become important lessons in the realm of lax corporate oversight in other sectors. Individual consumers would certainly have a different attitude about the virtues of an unfettered market if they learned the difficult lesson that risky behavior can bring about foreclosures and even recession. Maybe they would even vote differently.

Now, one might make the case that there is nothing wrong with the current cycle as it is playing out—that a good deal of economic growth has come from the deregulation of these sectors, and that economic growth has been, in the aggregate, good for the US economy and American consumers overall. What does it matter if we extract the tax burden up front, which might curtail risky behavior and growth, or on the backend in the form of a bailout? This is a fallacious argument, because over the last 30 years, the aggregate growth of the US economy has largely benefitted the economic elites of the system—those engaging in the risky economic behavior—creating a much greater disparity in earnings between the wealthy and the middle and lower classes. Yet, when a government bailout occurs, the tax burden is shared by all.

The main point we want to emphasize here is that these crises arose from a complex set of shifting incentives in the changing institutional environment of the US financial system. Corporate strategists and financial professionals in banks around the world relied on simplistic assumptions about financial instruments that were far too complex for such models. Creative leaders must embrace the challenge of understanding complexity rather than relying on simplified models of strategy and economic behavior.

Openness to New Economic Models

We turn now to the issue of state involvement in the economy and the strategic alignment of the Chinese state sector with national interests. Since the early 1980s, most of the capitalist world has converged around the consensus that state-owned enterprises are fundamentally inefficient. With the privatization of national energy conglomerates from Britain to Italy to the privatization of tobacco and salt corporations in Japan to Mexico, Turkey, Zaire, the general consensus is that state involvement is fundamentally antithetical to the type of efficiency that comes with private ownership. The assessment of the inefficiencies of state planned economies in the Soviet Bloc and China seemed to confirm this view. Dating from the scholarship of famous economists like Janos Kornai

through Jeffrey Sachs, the basic position has been that state ownership simply could not provide the right incentives for efficient market behavior. The success of China's economy and many state-owned firms within it has caused us to revisit some of the key assumptions upon which those arguments are based. The reality that China has revealed is that the issue is not ownership per se (state versus private) but, instead, the ability to create the right incentive structures that lead to efficient market behavior.

Take, for example, the formation and transformation of PetroChina over the last decade. With the formation of the Chinese National Petroleum Corporation (CNPC) in 1988, we saw an organization that carried all of the ills of a classic state-owned organization—bloated workforce (about 1.5 million employees that produced about the same amount of crude oil as StatOil's 80,000 employees in the mid-1990s); a hefty bill of nonwage benefits; inefficient assets; soft budget constraint in the form of an open checkbook from the state. However, CNPC's actions over the next decade showed its resolve to create a more efficient operating system. CNPC took all of its best assets and formed the corporation PetroChina as a subsidiary of CNPC in 1996. CNPC took on all of PetroChina's social welfare costs; PetroChina executives were given performance-related compensation packages. All of these changes preceded close work with Goldman Sachs, China International Capital Corporation (CICC), a joint venture between the China Construction Bank and Morgan Stanley, and McKinsey on preparing PetroChina for an IPO (NYSE and HKSE) in 1999. The result has been a firm that has been profitable, gained the respect (and investment) of investors like Warren Buffett, and recently become one of the most capitalized firms in the world (with market capitalization briefly eclipsing \$1 trillion as a result of its IPO in the Shanghai Stock Exchange in November of 2007).

But one of the issues that comes to the fore with successes such as these is the question of what a successful alignment of incentives under a state mantle means. If the incentives can indeed be aligned such that these organizations can perform efficiently, it is not surprising that state-directed corporations may actually have a better ability to serve the public interest. It is an obvious point that state-owned enterprises like PetroChina may actually be in alignment with the strategic interests of China's national energy policies. In an example closer to the current crisis in the US, it is difficult to imagine the Industrial and Commercial Bank of China (ICBC), which was recently in the news as the largest IPO in history, becoming mired in the type of crisis that many US banks currently face. Despite the fact that Chinese banks have not had the barriers that Glass-Steagall provided for US banks up until the 1990s (i.e., they can operate in both commercial and securities markets), they do not allow individuals the opportunity to act like the lone rangers that banks like Citigroup, Merrill Lynch, and Bear Stearns act as. The Chinese government simply does not allow for this type of unfettered behavior. This might cost the individual banks some growth opportunities, but it also likely saves them from the types of missteps that now hamper US banks and the US economy more broadly.

There is a third part to this argument that runs counter to most perceptions of China and state-directed economies more generally and is perhaps the most uncomfortable to face for believers in the superiority of the market as a coordinating system. There is a way in which the US system is actually less transparent than a state-directed economy such as China's. While we typically believe that even if China's economy is proving successful in its transformation, we have them beat in the areas of corporate and political transparency. But do we? The ways in which the corporate lobby plays a fundamental role in shaping the US economy—whether in the area of oil subsidies, bank deregulation, or corporate bailouts—is one of the more opaque processes within the US political system. In the Chinese system, while no one would argue that the processes that define Chinese politics are transparent, the alignment between the state and the corporate sector is in some ways more above board than it is in the US system.

Our argument here is not that the Chinese system is better than the US market economy; nor is the argument that Chinese firms are more effective than US corporations. However, it is important to note that we in societies promoting free market economies do not seem to have the stomach or political will for the type of system we idealize. Over the last 40 years our economic heroes have become individuals like Milton Friedman, advocating the freedom to pursue power and plenty in the unfettered markets of the US system. But when the risks lead to default, we do not seem to have the will to connect those outcomes with the economic or political system we advocate. In the end, we may have something to learn from the state-directed economies of China and Singapore. These are economies in which the state has an unapologetic interest in directing toward the public good. And, in the end, that approach may be more in the public's interest and more transparent than our own process of behind-the-scenes corporate lobby and after-the-fact bailouts.

Analysis and Alignment

How can creative leaders understand this crisis from an organizational level? At the Berlin School, we teach that creative leadership is not just about how individuals think creatively; it is much more about how leaders analytically understand the complexity of the challenges they face and create an organizational culture that effectively navigates those complexities and challenges. The financial crisis offers an interesting comparison that illuminates this point well. On the one hand we have Bear Stearns, which, along with Lehman Brothers was one of the biggest market failures in the history of investment banking. Bear Stearns was highly leveraged and over exposed to high-risk financial products in the mortgage-backed securities market; when the bottom fell out of the market, Bear risked failure and, with the aid of a government bailout, was sold at a deeply discounted price to JP Morgan Chase. On the other hand, we have Goldman Sachs, one of the few firms to actually make money in the crisis. Early on, Goldman

cleared itself of exposure to the high-risk products of the MBS market and hedged against the decline of the market.

How should we understand these divergent outcomes? Is it just that Goldman bankers were smarter than everyone else? No, such a conclusion would be simplistic at best, dangerous at worst. If we look beneath the surface, we find two very different kinds of firms that are structured and aligned in two very different ways. Bear Stearns was known for having a culture that could be described as innovative, maverick, competitive, individualistic, and risk-taking. Goldman Sachs, on the other hand, is known for having a culture that is collectivist, group-oriented, risk averse, and emphasizes the firm over the individual. Further, these cultures were designed into the firms through the structures the firms adopted. Bear Stearns created the culture described above by maintaining pay-for-performance at all levels (including junior levels), having deals divided and rewarded by "desk" contribution and by abandoning (in the early 2000s) what had been a tradition of very close, hands-on risk management that connected senior management and junior staff. Goldman, by contrast, emphasizes non-competitive equitable pay for all junior employees ("lockstep" pay); performance by a group is measured based on a division or desk's contribution to the firm bottom line (as opposed to the desk bottom line); risk management is a firm-wide concern, literally everyone's responsibility. These firms' divergent fates can be traced to their very different cultures, which can, in turn, be traced to very different structures that shape the work and rewards of those working in the organization. In other words, it was the firms' alignment (or misalignment, in the case of Bear) between their environments, strategies, structures, and cultures.

Conclusion

It is an understatement to say that the current financial crisis has had a deep impact on the global economy. There will not be an industry left unaffected by the reorganization that is currently underway. While creativity is often thought of either as an individual process related to the generation of new concepts, innovations, and ideas or as the purview of particular, "creative industries," we view creative leadership as being something very different. Creative leadership is about understanding the complexity of the environment in which a firm is embedded; it is about having a vision of how to navigate that complexity; it is about knowing how to strategically deploy resources to deliver on your firm's value proposition to the marketplace; and it is about creating the alignment that will allow your firm to foster a culture of creativity that will allow your people to be the best that they can be. In the current financial crisis, there are great risks and great opportunity. But most importantly, there are lessons about the key tenets of effective creative leadership. Many leaders and strategists sought simplicity and elegance in economic models when they should have been respecting complexity. Today, we need to look to economic models from around the world. And most of all, we need to constantly think about organizational alignment and the creation of the right kinds of cultures in our firms.

About the Authors

Doug Guthrie, PhD



Doug Guthrie is Academic Director of the Berlin School of Creative Leadership. He is also Professor of Management and Daniel P. Paduano Faculty Fellow at the NYU-Stern School of Business and Faculty Director for Global Executive Education. In addition to his duties at Stern, Professor Guthrie also holds an appointment as Professor of Sociology on NYU's Faculty of Arts and Sciences. Professor Guthrie's areas of expertise lie in the fields of management, leadership, corporate governance, and economic reform in China.

His research has been funded by the Ford Foundation, the Alfred P. Sloan Foundation, and the Social Science Research Council. He has also served as the Director of the Business Institutions Initiative and the Program on the Corporation as a Social Institution at the Social Science Research Council. Professor Guthrie has also taught at Harvard Business School, INSEAD and the Graduate Schools of Business at Stanford University, Columbia University and Emory University. He received his BA degree in Chinese Literature from the University of Chicago and his Ph.D. in Organizational Sociology from the University of California, Berkeley.

David Slocum, PhD



David Slocum serves as the Special Advisor to the Academic Director of the Berlin School of Creative Leadership. Professor Slocum completed ten years as an administrator and faculty member at New York University in 2008. Most recently the Director of the university-wide Center for Teaching Excellence, he was previously an Associate Dean in the Graduate School of Arts and Science. There, he was co-founding director of the Diversity Studies Program, operated jointly with the University of Cape Town (UCT), and coordinated the school's global outreach efforts. Before arriving at NYU, he directed and taught in the Graduate Media Studies Program at the New School for Social Research.

Professor Slocum has presented his research widely at more than 85 professional meetings and public lectures in 25 countries; he has also held visiting professorships at UCT and the University of Tehran. He earned his baccalaureate from the University of Michigan, a masters degree from Harvard University, and a Ph.D. in American Studies from New York University.

About the Berlin School of Creative Leadership

The Berlin School of Creative Leadership is an independent institute for quality executive education in creative leadership that serves as a think tank for raising standards in creative industries around the world. It is run by a non-for-profit foundation dedicated to fostering its mission, and operates in partnership with the School of Management and Innovation at Steinbeis University Berlin.

One of the principle activities of the Berlin School is its executive MBA in Creative Leadership program; a part-time global executive leadership program designed to turn great creatives into great creative leaders. Applicants are now being accepted for the next EMBA program starting on September 13, 2009.

The Berlin School also offers special open enrollment and custom executive education programs, which are tailored to meet the needs of creative executives from advertising, marketing, entertainment and media.

Programs offered through the Berlin School are taught by professors from leading business schools around the globe, such as Harvard, Kellogg, Stern/NYU, Insead, IMD etc., as well as internationally respected leaders from the creative industries, such as Marcelo Serpa, Keith Reinhard, Jean-Marie Dru, etc.

For more info please visit www.berlin-school.com

BERLIN SCHOOL OF CREATIVE LEADERSHIP

Phone +49 (0)30 29 33 09 - 252

Fax +49 (0)30 29 33 09 - 250

Mobile +49 (0)172 752 8077

Email s.johns@berlin-school.com

Web www.berlin-school.com