World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:10, No:01, 2016

Bank Failures: A Question of Leadership

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Abstract : Almost all major financial institutions in the world suffered losses due to the financial crisis of 2007, but the extent varied widely. The causes of the crash of 2007 are well documented and predominately focus on the role and complexity of the financial markets. The dominant theme of the literature suggests the causes of the crash were a combination of globalization, financial sector innovation, moribund regulation and short termism. While these arguments are undoubtedly true, they do not tell the whole story. A key weakness in the current analysis is the lack of consideration of those leading the banks pre and during times of crisis. This purpose of this study is to examine the possible link between the leadership styles and characteristics of the CEO, CFO and chairman and the financial institutions that failed or needed recapitalization. As such, it contributes to the literature and debate on international financial crises and systemic risk and also to the debate on risk management and regulatory reform in the banking sector. In order to first test the proposition (p1) that there are prevalent leadership characteristics or traits in financial institutions, an initial study was conducted using a sample of the top 65 largest global banks and financial institutions according to the Banker Top 1000 banks 2014. Secondary data from publically available and official documents, annual reports, treasury and parliamentary reports together with a selection of press articles and analyst meeting transcripts was collected longitudinally from the period 1998 to 2013. A computer aided key word search was used in order to identify the leadership styles and characteristics of the chairman, CEO and CFO. The results were then compared with the leadership models to form a picture of leadership in the sector during the research period. As this resulted in separate results that needed combining, SPSS data editor was used to aggregate the results across the studies using the variables ‘leadership style’ and ‘company financial performance’ together with the size of the company. In order to test the proposition (p2) that there was a prevalent leadership style in the banks that failed and the proposition (P3) that this was different to those that did not, further quantitative analysis was carried out on the leadership styles of the chair, CEO and CFO of banks that needed recapitalization, were taken over, or required government bail-out assistance during 2007-8. These included: Lehman Bros, Merrill Lynch, Royal Bank of Scotland, HBOS, Barclays, Northern Rock, Fortis and Allied Irish. The findings show that although regulatory reform has been a key mechanism of control of behavior in the banking sector, consideration of the leadership characteristics of those running the board are a key factor. They add weight to the argument that if each crisis is met with the same pattern of popular fury with the financier, increased regulation, followed by back to business as usual, the cycle of failure will always be repeated and show that through a different lens, new paradigms can be formed and future clashes avoided.

Keywords : banking, financial crisis, leadership, risk
Conference Title : ICFA 2016 : International Conference on Finance and Accounting
Conference Location : Zurich, Switzerland
Conference Dates : January 12-13, 2016