

## Yaseen Anwar: Leadership challenges for business success

Speech by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, at the 12th Management Association of Pakistan Convention, Karachi, 14 December 2011.

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*Honorable delegates, members of MAP, ladies and gentlemen,*

It is indeed a pleasure for me to be with you today, on the occasion of the 12th Management Association of Pakistan (MAP) Convention on “**Leadership Challenges for Business Success**”. First of all, I must express my gratitude to MAP for inviting me to this gathering and providing me an opportunity to share my thoughts with the country’s business leaders.

At the outset, I would like to commend MAP for its role over the last four decades in disseminating management knowledge that has helped in elevating the overall leadership aptitude of our managers. The quality of business leadership and human resources play a significant role in sustaining growth and competitiveness. MAP has facilitated this by providing a platform to business leaders and professional managers to deliberate managerial developments and establish strong social and professional networking. This yearly convention on key issues provides an opportunity for participants to meet exchange and learn from each other’s experience.

The theme of this convention is most appropriate, revolving around the concepts of Leadership and its role in business progression in a turbulent time. Leadership itself is a wide and crucial topic that can be discussed throughout the duration of this convention. Having worked with leading global financial organizations in different markets, including now at the State Bank, I understand the issues and challenges facing businesses and their leadership, particular during these difficult times. Answers to all our problems are certainly not readily available to us. However, conventions such as these enable us to share our experiences and arrive at some shared conclusions.

The world today is passing through a turbulent phase that requires a realignment of our leadership approach to managing a business. Today’s business leader is faced with a multitude of challenges, both on external and internal fronts. The complexities arising in the eco-system of any business may arise in the shape of macro economic imbalances that include sagging demand, inflation, volatility in financial markets etc. While demanding situations on the internal front arise from personnel management, investment decisions, alignment and realignment of business objectives, there should be no ambiguity that there are always complex matrices linking external challenges with internal ones and therefore, successful business leaders will never make internal business decisions in isolation. An uninformed business leader is a leader without a vision and quite likely without any success.

**Ladies and Gentlemen**, we meet today at a challenging time with many headwinds going forward. The global economy is on a downhill path and financial turbulence continues to affect the masses across the globe. All this started in 2007/2008 as the private debt subprime crises related to the US housing market transformed into a systemic financial crisis that spread from the US to the Euro area. More recently, this has turned into a sovereign debt crisis. The crisis, now in its fifth year, has morphed into a new phase of a political crisis. In the Euro region, important steps have been taken to address the current problems. However, political differences within economies undergoing adjustment and among economies providing support have impeded achievement of a lasting solution. We have already witnessed causalities of these crises. Similarly the political processes in the United States and Japan are facing challenges in reaching consensus on medium term fiscal adjustments. What we have seen is a complete transformation resulting from the worst crisis of modern times. All these events have challenged the approach of financial leadership, business leadership, Economic Managers and Political leaders.

Notwithstanding, we also have some bright spots in the form of emerging market economies with positive growth prospects. This is primarily because these economies have dealt with relatively more frequent, though small scale crises on their domestic fronts. Of the advanced countries, Australia and Canada have been least affected by the Global Financial Crisis because of their relatively stricter regulatory regimes and hands-on approach. The approaches of these economies and their leaders seem more practical and proactive, a trait necessary for leadership and a necessary part of a vision about the future.

As mentioned earlier, this conference is significant in the sense that it comes at a time when the financial services sector across the world is in the midst of a crisis. Since the disruption has become acute, there is a debate over a number of issues relating to management and supervision of the financial services industry. In order to be effective, the concern and tone for risk management must start at the top. You would agree that while the management may get influenced by business targets and short term profitability, the Board, representing owner's perspective, always targets for long term viability and sustained growth of the bank. By virtue of this different perspective and its legal powers, the board is better positioned to enhance the role of risk management in a bank. That is why SBP has always emphasized the involvement of the Board and made it accountable for establishing enterprise wide risk management framework.

While the overall responsibility of risk management rests with the Board of Directors, it is the duty of the CEO to display leadership and transform the strategic direction set by the Board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies. SBP desires a more active role of the Board in setting the strategic direction of a bank as well as to bring them under accountability. The formulation of policies relating to risk management only would not solve the purpose unless these were clear and effectively communicated down the line. The CEO as a leader must ensure that these policies are embedded in the culture of the organization. For the value of risk management to be realized, integration is essential. Therefore, the emphasis should be on integrating risk management into the existing management structure and processes, rather than operating as an appendage.

The above discussion highlights four key areas that have contributed to the crisis and remain relevant for both financial and non-financial firms; *weaknesses in corporate governance arrangements; excessive risk taking for short term gains, inadequate Accounting standards and regulatory requirements in some areas, and mismatch between the remuneration systems and strategy and risk appetite of the company*. Most of the multilateral agencies and financial regulators have now increased focus on building a more resilient financial framework including developing new standards for addressing the above challenges.

Like any real life crisis, the present turmoil in the financial sector provides an opportunity to learn from the financial world's mistakes and overzealousness. This gives us the opportunity to look back and see what went wrong and structure our own financial houses so that this does not happen to us, or so severely affect the world again. In this regard I feel the most significant lesson that we have learnt from recent events is the importance of fundamentals in risk management. For instance there is a basic rule since inception of banks which says "do not put all your eggs in one basket". Had this simple rule been followed, many institutions could have avoided huge losses.

The challenges posed by the Global Financial Crisis have impacted leaders of all major businesses. Elevating corporate governance should not be confined to banks, but commercial concerns must also do the same. We all know the pace of globalization has accelerated, resulting in increased domestic and global economic integration. Today we cannot just shrug off failures within a particular sector or sometimes even a single entity if it has global linkages. Gone are the days when a financial or political crisis in one country could be contained to that country; now there are several contagion effects at different levels.

So how do we address these challenges for a country like ours that is subject to exogenous shocks and maintain steady economic and social growth? Our visionary business and political leaders must be alert to the challenges they face now and are likely to face in the future due to developments in other parts of the globe. On the domestic front, we need to manage our macro-economic fundamentals. Both our economic and political leadership is faced with multiple challenges of trade imbalance, inflation, unemployment, power crises and security situation. The challenges for making good decisions on these fronts requires political will and a clear long term vision. There are no shortcuts to sustained economic development. We need to develop the right strategies and then translate these strategies into action.

Similarly the challenges for business leaders, though at a micro level, are by no means less critical. These challenges range from the survival of businesses in a stagnant business environment to developing strategies for further growth through developing new business models, new products or restructuring and re-engineering. We need to understand the issues and accept that in implementation we will make mistakes, but in the long run with continuous improvement we can be on the road to recovery. This is by no means an easy task. It is important to recognize the true nature of any problem, and develop workable solutions to these problems in a timely manner. Leaders with perseverance and vision will tackle these issues successfully and emerge as the business leaders of today.

Effective leadership must also include skills to manage people and teams. Management of human resources is extremely critical to the success of any business across the globe. An important challenge during difficult times is to ensure employees' performance is maintained at a high standard. Owing a crisis, institutions must recognize they still need to retain their critical workforce.

Here I would like to underscore the importance of women representation in the work force. Women represent almost half of the population of Pakistan and a significant talent pool that is ignored. How can we as a nation progress if 50% of our work force is in a non-productive capacity.

Given Globalization and the crises we all face, let's recap the traits of effective leadership that are universally applicable. Leaders must be **visionary** to see future trends, anticipate institutional bottlenecks, remain competitive and be able to **adapt rapidly** to changes. They should be **continuous learners**, a necessity for enhancing leadership skills. Leaders need also to take into account their **corporate social responsibility** so that profit seeking is balanced against the objective of **social service** and well being of society. Leadership success requires strong **conviction** and **belief**. Yet having **humility** and recognizing the need to **reinvent** and inspire their organization to adapt to new challenges remain an integral part of successful leaders. This is vital if businesses want to remain at the forefront of new innovations, critical for **longterm competitiveness**. All these and more comprise the necessary characteristics for dynamic leaders that push the frontiers of excellence. Such corporate leaders fuel the drive towards long-term growth and stability.

In conclusion, the challenge is; have we learned from our past mistakes and prepared ourselves for taking advantage of expected opportunities? I would like to quote here what Nelson Mandela said about leadership "*It is better to lead from behind and to put others in front, especially when you celebrate victory when nice things occur. You take the front line when there is danger. Then people will appreciate your leadership*". So it's the time for all business leaders and managers to take the lead.

**Thank you.**