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On the issue of stability of Wall Street CEOs, while hoping for cultural changes in the financial sector

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Abstract

Purpose – This paper aims to open up dialogue between several popular non-fiction books written on Lehman Brothers – and its chief executive officer (CEO) Dick Fuld in particular – and the academic literature on leadership and organizational culture.

Design/methodology/approach – Vicky Ward's book The Devil's Casino is examined closely to understand the influence of the bank's CEO on the organizational culture.

Findings – A notable instance of coupling is highly recurrent in the book, linking the personality of Dick Fuld with his top management team and Lehman Brothers' employees.

Originality/value – Focusing on the CEO's personality, this article engages with the academic literature allowing for a distinct problematization of the issue, and a potential resolution: the importance of changes in leadership to trigger an evolution in Wall Street's culture.

Keywords Leadership, Identity, Business ethics, Organizational culture, Lehman brothers, Wall street

Paper type Viewpoint

Many books have been written on the Global Financial Crisis (GFC), taking various points of view, and focusing on a number of distinct areas of concern: deregulation, lobbying, ethnographic accounts of mundane organization, etc. They all offer complementary approach allowing readers to get a better grasp on this complex and disastrous phenomenon. Among these, a number of authors describe the financial sector from within the firms that played a major part. One of them, Lehman Brothers, whose bankruptcy has been highlighted as one of the triggers of the crisis, has been particularly thoroughly examined (McDonald and Robinson, 2009; Tibman, 2009; Chapman, 2010; Ward, 2010). Considering the importance of this particular bank, and the fascinating dynamics that took place within it, I choose here to focus on *The Devil's Casino* (Ward, 2010)– a particularly intriguing account.

Through a careful reading of the book, this article aims at showing how the GFC was also rooted in specific organizational dynamics, notably the coupling between leaders' personalities and the culture of the organizations in which they operated. Through this coupling, we can partly explain some of the abuses in terms of management styles, hiring and promotion practices or compensations and bonuses. But first, we must start by following Vicky Ward into the devil's casino.

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Entering the devil's casino

Ward (2010) tells the insider story of Lehman Brothers between 1984 and 2007. The book could be seen as the second volume of Auletta's prior and possibly visionary account (Auletta, 1986). Through the *Devil's Casino*, we can see in detail how one of the major investment banks emerged, skyrocketed and crashed. Importantly, employees and executives at Lehman Brothers were not short-lived, ephemeral actors in the financial sector. They were central, long-standing members; key players in the system's expertise, function, culture and ethics.

In her 270-page accessible book, Vicky Ward invites us inside the organization, showing in detail the power plays, friendships, struggles, values and practices of Lehman Brothers. Before being seen as architects of the Global Financial Crisis, the *Lehmanites* were seen as well-respected, highly skilled experts, offering complex and necessary services to corporations from all sectors. The evolution from investment banking to a quasi-hedge fund during the 1980s and 1990s was a gradual organizational change. Yet, Lehman Brothers was not the only case – other key actors in the financial industry were going through a cultural paradigm shift of much the same nature (Bazin, 2013).

This evolution of the sector was rooted in local, concrete organizational changes: hiring, induction and promotion practices, compensation and incentive inflation, executives' and chief executive officer (CEO)'s personalities. Through these, money came to trump client satisfaction. Ward (2010) shows us a proliferation of helicopter rides to work and private jets, villas in the Hamptons and New York penthouses, golden hellos and parachutes, not to mention ruthless competition and million-dollars bonuses. Employees were focused on commissions before anything else, even clients' satisfaction; and managers were encouraging such behaviours through bonuses and other incentives systems. The paradigm shift deeply changed organizational practices, and the record profits of the 1990s and 2000s came to a dramatic end in 2008. On 15th of September, the 150-year-old financial institution filed for bankruptcy. At that time, pillar organizations of the public trust in financial markets appeared, almost overnight, as deeply flawed, self-centred and even dangerous: investment banks most obviously, but also insurance companies, hedge funds, pension funds and rating agencies.

Through the book, one can see, from a position of a daily insider, how these organizations were functioning and came to evolve as they did. Some situations are even comic, like when some bankers had to take emergency golf lessons to fit in and not to be stigmatized in these extremely strong organizational cultures. Some are more tragic, like the case of an employee's wife who gave birth alone because her husband could not get out of an important conference call:

> But I wouldn't get mad at him – he had called the entire Hong Kong office in for a meeting. We knew that it would have been used against him. If you made a personal choice that hurt Lehman, it was over for you (Ward, 2010, p. 133).

Talking about strong culture does not even do justice to what is depicted in these pages. Although the book sometimes gives in to drama and exaggeration for the sake of entertainment, Ward's (2010) is an excellent read to discover the world of investment banks in the two decades prior to the GFC. Readers can see the gradual evolution of managerial and strategic rationales.

Through the story, one actor imposes himself as unavoidable: Lehman's CEO Dick Fuld. Often depicted as a Wall Street villain in public accounts since the crisis, the detailed light shed by Ward (2010) could be read another way. One could focus instead on how much the personality of Wall Street CEOs, and corporate top executives in general, contribute to the organizational cultures. Indeed, throughout the *Devil's Casino*, the reader finds him/herself contemplating the strong coupling between Lehman's employees and their leaders (the plural is important). This coupling has lead to the emergence of an astonishing culture and questionable ethics. The influence of companies' leaders thereafter appears problematic.

Dick Fuld: Lehman brothers' CEO by day, Wall Street villain by night?

In particular, in Ward's account, Lehman Brothers' CEO Dick Fuld appears as the central pillar of the organization. When Lehman Brothers was operating under the control of American Express, Dick Fuld was a key player of the preservation of its existence and culture. Yet, during the late 1980s, many partners left the firm, not feeling comfortable with the evolution of the industry:

> One by one, except for Fuld, they left. Peter Solomon was the last to go, in 1989. "I saw how the new business was shaking out, how capital markets were rising and supplanting the advisory business, and I realized it just wasn't my area of expertise" (Ward, 2010, p. 39).

By 1990, Fuld was the most senior person left and, surrounded by a small team, he defended the company's brand and its name. Throughout the 1990s, they were the main architects of its astonishing development.

Lehman Brothers' spin off from American Express in 1994 was an incredible opportunity for Fuld to impose his leadership during this new start: "We have the opportunity to create our own destiny, and I need you to do it" (Ward, 2010, p. 2). Finally emerging from the shadow and control of AmEx, employees had to be united around the vision of one leader. Yet, Fuld does not strike one as the obvious, classical corporate leader. Former employees often described him to Vicky Ward as invisible, sometimes relying too heavily on strong lieutenants. This is why the earlier plural in leaders was important:

> The hopes – and heart and spirit – of modern Lehman lived and died with two men with huge presences, both of whom served as Dick Fuld's number twos, his confidants, his presidents, his victims (Ward, 2010, p. 3).

The two individuals were Chris Pettit ("his number two in the trenches") and Joe Gregory ("pushing risk everywhere"). These lieutenants were so important in the organization that Pettit was often described as "the hero and the real leader" (Ward, 2010, p. 43). For a long time, Fuld is said not to have known the names of any employees, to have avoided managerial decisions and to have delegated matters of interpersonal conflict and compensation as much as possible. On these issues, he named a "frontline committee" of six people in 1996, to ensure a buffer between him and the management of the company.

Despite this organizational decoupling, Dick Fuld's personality remains important in the evolution of the account by Ward. He is variously described as: tyrannical, valuing fidelity, very bright, taciturn, ruthlessly competitive, offensive, combative, frightening, often vulgar (even in public), instinctive, obsessed with financial performance, at ease with big picture issues and broad numbers, lost and annoyed when faced with details, excellent at power plays and corporate politics and extremely pragmatic. In his career, he showed a common tendency towards insubordination in face of authority, hence his nickname: "the Gorilla". Yet, he rarely tolerated disagreement:

> Basically, everybody did what Dick said because Dick was right often enough. Almost no one dared cross Fuld and take an alternative view, because if they lost money on a trade he hadn't sanctioned, there was "hell to pay", according to this trader (Ward, 2010, p. 20).

Nevertheless, he relied heavily on a few trustworthy lieutenants, with whom arguments where possible. Outside of this small group, any disruption of the chain of command was met with violent reactions. He was famous for his outbursts and liked to claim that he was managing by fear (Ward, 2010, p. 20). Consequently, his personality is found to be linked with many tendencies and values of *Lehmanites*.

To impose himself as a corporate leader, Fuld also showed an ability to work on his weaknesses. He took public-speaking lessons, learned as much as he could about investment banking (he was originally a trader) and trained himself in negotiation. He started spending time in corporate and social events after years of avoidance, during which he delegated any public speeches. Before this, he was often described as scary, but not charismatic. Although he made progress, the difficulties faced by Lehman Brothers after 2005 led him to slowly disappear, to isolate himself from the trading floors (Ward, 2010, p. 52). At that time, he had become a prominent figure in the New York establishment, and was intensively building an important art collection. Although invisible to many, he maintained an active public profile, developing his image of major corporate leader in the financial sector, not only as the CEO, but as the architect and founder of the modern Lehman Brothers.

What about *Lehmanites*? As Ken Auletta puts it:

> What do I think when I look back on that period when I interviewed all those Lehman bankers in the 1980s? Honestly, I was relieved that I'd never have to see many of them ever again. They were, with some exceptions, a greedy, selfish, deeply unpleasant bunch of people (Ward, 2010, p. 1).

This depiction of Lehman Brothers employees shows many resemblances with the personality of their leader, as described above. Yet, if CEOs' personalities have an influence on organizational cultures, one should not overstate these to produce a simple answer to the shifts that occurred in the financial sector and caused the GFC. Put simply (to complicate more), all of Lehmanites' faults and vices should not be blamed on Dick Fuld. Yet, this connection requires further developments and a closer look to partly understand the managerial roots of the financial crisis, alongside today's situation.

Leaders' personalities and organizational cultures

Beyond the story of Lehman Brothers, Ward (2010) could be read as an illustration of the complex coupling between an organization and its leaders' personalities. The way CEOs and top executives engage with their environment, their worldviews, their values, their demons and their beliefs is closely connected with their business decisions and management styles. If the coupling is complex and often loose, it is also far from inexistent.

The connection between a CEO and employees cannot be thought in a simplistic way, which suggests a direct and unproblematic coupling. This is least of all because in multinational corporations, most employees never meet their CEOs, and they are linked to them only by an often long managerial chain of command. One could see the lack of access to top executives and CEOs as a way of separating "ordinary members" from their leaders. In these cases, if they encounter the "Big Boss" at some point, employees may feel like they are "meeting God" (Gabriel, 1997). Consequently, a strong separation can also create an organizational fascination, submissive followership and thus a form of distant connection. Yet, these encounters remain scarce, and top executives play a major role in this coupling, or decoupling, of organizations and leaders. Related to this, Kisfalvi and Pitcher (2003) have shown how "the influence of CEO character and emotions on top management team dynamics" works. Top executives have an important function in shaping the strategy and the organization. Since their composition within top management teams is strongly influenced by the CEO, they will be somehow representative of his or her personality, and also function as an organizational relay. Yet, as we have seen in the case of Lehman Brothers with Chris Pettit, Fuld's second in command, they also loosen the coupling between leaders and organizational cultures.

Kets de Vries and Miller (1986) worked to establish a connection between personalities of corporate leaders and organizational cultures through a psychopathological lens. They identified five neurotic styles and depicted how these can infuse the culture and the organization. According to the authors, their model "will be especially applicable to firms in which the decision making power is centralized in the hands of either a top executive or a small, homogeneous dominant coalition" (Kets de Vries and Miller, 1986, p. 266). Consequently, considering how investment banks are structured, this academic account may be a rich source of meaningful insight into how Wall Street firms are managed. In particular, as Dick Fuld has already been identified as a narcissistic leader (Stein, 2013), we can examine the links between the model and Ward's (2010) account.

Kets de Vries and Miller (1986, p. 273) describe such leaders as follows:

> They often exaggerate their achievements and talents and display excessive emotion […] They often lack sincerity and are inconsiderate of others […] Relationships thus tend to be unstable […]. When fantasies of unlimited power, success and brilliance are cut short, dramatic CEOs may experience marked feelings of rage and anger, and act vindictively.

So far, regarding how Dick Fuld is described by Vicky Ward, the shoe relatively fits. According to Kets de Vries and Miller (1986, p. 273), these CEOs also have a strong impact on their organization:

> Subordinates tend to idealize the charismatic leader; to ignore his/her faults; and to accentuate his/her strengths […]. They thus become extremely dependent on the leader […] In the charismatic culture, everything seems to revolve around the leader […] Charismatic leaders are persons of action who strive aggressively and single-mindedly to implement a central goal that becomes a focal concern for the followers […] Audacity, risk-taking, and diversification are the corporate themes. Instead of reacting to the business environment, the top decision-maker attempts to create his/her own environment.

Here again, the model appears to closely resemble what is described in the case of Lehman Brothers (McDonald and Robinson, 2009; Tibman, 2009; Chapman, 2010; Ward, 2010). Yet, despite such immediate similarities, a singular focus on pathological leaders creates a potential bias. Instead, a broader view of the connection between an organization, its culture and its varied leaders is needed.

Lubit (2002), for instance, provides an explanation of how narcissistic leaders impact organizations. According to Lubit, this type of leadership is very likely to arise in today's corporations, and to impose a new rationale within them via hiring and transfer practices, performance measurement, reward systems and work processes. Progressively, the personalities of such leaders will come to shape the organization:

> An organization's culture – norms of behavior, values, and beliefs – is forged from the role models that leaders provide, the myths and stories leaders tell, what the organization measures and rewards, the criteria used for hiring and promoting people, and the organization's historical norms of behavior and values (Lubit, 2002, p. 134).

Although extremely influential, the performance of such narcissistic CEOs remains questionable. According to Chatterjee and Hambrick (2007), they tend to favour bold and risky decisions, which result in dramatic wins and losses; but their firms tend not to perform differently from others. If a relational link is clearly identified between organizational leaders and cultures and practices, details on the actual coupling mechanisms remain unclear so far. How is the leader's personality concretely linked with his/her organization? How do employees come to be managerially, intellectually and emotionally connected to their CEOs?

Schein (2004), in turn, has built an often-cited conceptual model explicitly linking organizational culture to leadership. In his words, "leaders begin the culture creation process and, as we will see, must also manage and sometimes change culture" (Schein, 2004, p. 223). According to Schein, founders are the initial carriers of basic assumptions, beliefs and values that will shape the first shared experiences of the group from which the organization will arise. This initial transmission is not a cognitive, rational process of teaching and controlling, but rather a leadership dynamic of influence over collective perceptions, thoughts and feelings. Avoiding the simplistic answer of charisma, Schein (2004, p. 246) focuses on embedding mechanisms: "major tools that leaders have available to them to teach their organizations how to perceive, think, feel, and behave based on their own conscious and unconscious convictions". In particular, he explains how leaders embed their beliefs, values and assumptions and pass them on to their organizations. He distinguishes primary embedding mechanisms:

- what leaders pay attention to, measure and control on a regular basis;
- how leaders react to critical incidents and organizational crises;
- how leaders allocate resources;
- deliberate role modelling, teaching and coaching;
- how leaders allocate rewards and status; and
- how leaders recruit, select, promote and excommunicate.

And secondary articulation and reinforcement mechanisms:

- organizational design and structure;
- organizational systems and procedures;
- rites and rituals of the organization;
- design of physical space, facades and buildings;
- stories about important events and people; and
- formal statements of organizational philosophy, creeds and charters.

These mechanisms provide a conceptual model that enables a more comprehensive and nuanced understanding of the (more or less) loose coupling between the leaders' personalities and the organizations in which they operate. Specifically, there is a connection between CEOs and organizational behaviours suggested here, which means that hoping for a change in organizational cultures appears somehow contradictory if there is a stability of leadership present as well.

Discussion: can regulation alone change Wall Street's culture?

The crisis shed a prominent light on the problematic shifts that unfolded in the financial sector since the early 1980s. Beyond deregulation and the expansion of the libertarian doctrine, local organizational changes were at play in investment banks. From complex expertise services offered to their clients, they became quasi-hedge funds oriented towards short-term profit maximization. This evolution was made possible by a change of strategy and management styles, and thus, to a notable extent, by a change in CEOs. As we have seen, one of the best-known leaders on Wall Street was Dick Fuld. His longevity and personality were, and still are, legendary.

Whatever account one reads (McDonald and Robinson, 2009; Tibman, 2009; Chapman, 2010; Ward, 2010), Fuld appears as the key player in the shaping of Lehman Brothers, which became one of the major banks on Wall Street under his leadership. His personality was so distinctive that his reputation often preceded him. As everyone waited for "the Gorilla", and because Fuld was not completely misrepresented by his nickname, for many that is who he was. Ward (2010) offers a more detailed portrait of this major character of the Wall Street stage. Social anxieties, difficulties in public speaking, problems with authority – Dick Fuld was not the caricature created and parroted by *Lehmanites*, or some media; he may have been just a slightly less colourful version of it.

If Dick Fuld was not exactly like his reputation, his personality was still highly narcissistic (Stein, 2013). Consequently, Lehman Brothers had to be influenced by the traits of its historical leader. Through a short overview the literature, we have seen how leaders' personalities are more or less coupled with the culture of the organizations in which they operate.

The paradigm shifts in the financial sector were only made possible in the past through an evolution of leadership in Wall Street; and wishing for an evolution in the future cannot be seriously made without thinking about a similar change in the sectors' leaders. Laws and regulations will frame the activities of financial institutions; they might only laboriously change their cultures. This issue is starting to raise interest, and an ambitious program has already been initiated the UK (Lambert, 2014). The global financial crisis had regulatory roots, but it was also made possible by major shifts in organizational cultures. And things will not change without new ones.

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