
2.1 Introduction

The three decades of my professional journey to date have coincided with an unprecedented acceleration of globalization that has transformed the world into today's Global Era. I am probably not alone in finding the world today a fascinating, fast changing, and diverse, yet highly complex, confusing, and volatile place, at least as compared to the time when I was growing up. We have information at our fingertips, online and in real time, about every excess from exuberant wealth and growth dynamics to extreme misery and poverty. While these discrepancies always existed, for the first time in human history this broadly available information allows us to easily compare the lifestyle of a hedge fund manager billionaire in California with that of a construction worker in India making seventy cents a day. Or we can compare the lifestyle of a sheik in Abu Dhabi with that of day laborers in Burkina Faso who are digging for gold in the desert under miserable conditions and are fighting for the mere survival of their families.

While the spread between these extremes seems to be getting wider and wider, the time spans within which radical change can happen seem to be getting shorter and shorter. For example, in 2007/2008 we witnessed the worst financial and economic crisis since the Great Depression in the 1930s, and there was a widespread sense that the world might grind to a halt—at least economically. Several years later complacency seems to be creeping in again, and those privileged enough to be able to participate in the world's real asset markets are

reaping double digit returns on their investments as a result of the once again exuberant market dynamics fueled by loose monetary policy.

Indeed, seen from today's perspective, the world some 40 years ago looked quite orderly. There was a "First World" that traditionally referred to capitalist, industrialized countries like the United States, Western European countries, as well as other industrialized countries like Japan, Australia, and New Zealand. The "First World" covered approximately 15 % of the world's population and accounted for over 60 % of global GDP. The "Second World" was the influence sphere of the former Soviet Union and was closed to all others, hidden behind the Iron Curtain. And the "Third World"—the only one of these three terms that is still occasionally used today, despite its obvious obsolescence—included everything else and was characterized by poverty, famine, war, and natural disaster. Large parts of Asia and Latin America, in particular, were looked at as hopeless in light of overpopulation and difficult climatic conditions, whereas there was more optimism about Africa, based on its wealth of natural resources.¹ The world also seemed comparatively simpler at that time, because there were few challenges acknowledged as being truly global, apart from global security concerns in the context of the Cold War and the international trade and finance architecture established after the Second World War. Therefore, only limited international governance mechanisms existed to interfere with the actions of sovereign states. The state was the predominant point of reference for political and economic thought and action at the time, and it alone was supposed to ensure effective and fair laws, regulations, and policies via democratic processes.

These are observations from today's perspective, but the reality at the time was not so simple given the existence of power blocks that had huge cross-border influence, such as the Western Alliance and the

¹ There was even an alternative "Three World" concept developed by Mao, as former U.S. Secretary of State Henry Kissinger referred to in his comprehensive book *On China* when he quoted Chairman Deng Xiaoping as saying, "The United States and the Soviet Union belonged to the first world. Countries such as Japan and Europe were part of the second world. All the underdeveloped countries constituted the Third World, to which China belonged as well." (Kissinger, 2011, p. 303)

Soviet Union. By comparison, many Third World countries were only nominal states that still reflected their previous imperial and colonial histories. Nevertheless, such simplified observations may be useful to highlight the contrast with the radically different view of today's world. The G20 organization that gained increased influence during and after the global financial crisis of 2007/2008, and whose members constitute over 90 % of world GDP, is just one visible symbol of the obsolescence of the three-tiered world structure that dominated the worldview up until the late 1980s. Growth and political influence have been steadily shifting to major newly emerged economies, whereas traditional economic powerhouses, particularly some in Western Europe, are stuck in uncompetitive structures. They seem incapable of reform despite substantial pressure from dramatic fiscal imbalances, immigration, and unfavorable demographic trends.

The forces that have been driving this accelerated globalization over the last 40 years are well-known and broadly publicized. The most powerful has been the integration of a series of major countries into global economic, and increasingly political, structures. Some examples include China (which started to open up to the world in 1979), Russia (since the fall of the Berlin Wall in 1989), as well as India and Brazil (given their accelerated economic growth, particularly over the last decade). Several countries of sub-Saharan Africa, as well as selected Latin American countries, have also experienced an unprecedented recoupling with the world economy. The integration of all of these countries has fostered the globalization processes for goods, financial services, and labor markets. With regard to financial markets specifically, their globalization has been a major contributing factor to the restructuring of a large part of the corporate world.² Only about a quarter of the "Fortune 500" global companies

²In 1987, I was part of an international project team at McKinsey that was mandated to conduct the first substantial, internal research on the globalization of financial markets. We analyzed globalization trends and debated hypotheses about explanations and consequences, and we also derived different strategy models for financial firms to consider and benefit from these globalization trends. An interesting insight at a more personal level relates to the high level of diversity of the team members, which was characteristic of our globalizing world at that time. The participants' deep mental models reflected their cultural biases, irrespective of the level of education and the fact that we were all

from 1970 were still more or less active under similar brands and with similar businesses 35 years later, many traditional corporations have disappeared, and others have emerged.

At the same time, the revolutionary progress in information and communication technologies has allowed for local events to be transported immediately onto global communication platforms. As a result, more and more global challenges have emerged that need to be addressed by global governance mechanisms. One of the more recent examples of such mechanisms is the United Nations Millennium Declaration that articulates global Millennium Development Goals to address poverty and encourage development in the world's poorest countries. Other examples include the various summits held to address climate change and the establishment of a new Financial Stability Board (FSB), an international body mandated to deal with the global financial crisis.

We are clearly living in times of radical transformation. But we should be careful not to take these changes for granted, for globalization may be a reversible trend—as becomes evident when looking into the past. As Mark Twain once said, “History does not repeat itself, but it does rhyme.” For example, many attempts to build global empires—from Alexander the Great to Genghis Khan and from the Ottoman Empire to the Spanish Empire, to mention just a few—were successful due to great strides that had been made at that time in terms of improvements in technology and communication as well as increased accessibility. Those empires eventually fell, but globalization returned again in modern times before World War I. At that time, at least part of the world was globalized, almost to the extent that we are experiencing today. However, unlike today, globalization opportunities at that time were only accessible to a very small number of people from

working in a global organization with a consistent value system. The Europeans believed that what went up for an extended period of time must eventually come down. The Americans explored a new paradigm to argue that what went up for an extended period of time would go even higher. In October, the equity crash proved the Europeans right—for that time. Another insight that could be discerned by looking at this experience from today's point of view was the fact that globalization then was still very much looked at from a “First World” perspective. There was no room for a truly Asian, African, or Latin American view.

the upper classes. This is well illustrated by a remarkable, often quoted text from the British economist John Maynard Keynes, which was published in 1920 when he was asked to analyze the consequences of the Versailles peace treaties. His analysis began with a description of the way of life of London citizens at the outset of World War I:

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; . . . He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement. (Keynes, 1920, p. 5)

It took over 50 years, two World Wars, and one Cold War to get back to the levels of economic integration that had prevailed, at least within the British Empire, before World War I. Historians Tony Judt and Timothy Snyder describe this journey in their book called *Thinking the Twentieth Century* as follows:

The two decades following the end of the late-nineteenth century economic depression were the first great age of globalization; the world economy was truly becoming integrated in just the ways Keynes suggested. For precisely this reason, the scale of the collapse during and after the First World War and the rate at which economies contracted between the wars is difficult for us to appreciate even now . . . it took until the mid-1970s for even the core economies of prosperous Western Europe to get back to where they had been in 1914, after many decades of contraction and protection. In short, the industrial economies of the West (with the exception of the United States) experienced a sixty-year decline, marked by two world wars and an unprecedented economic depression. (Judt & Snyder, 2012, p. 26f.)

These two quotes illustrate that transformations from accelerated globalization are not linear. They have the potential to create huge opportunities for innovation and progress, but also to spell

unprecedented disaster in terms of economic loss, violence, and chaos. An optimist in this debate is the well-known economist and Nobel Prize winner Michael Spence who expressed the view in his book *The Next Convergence* that we may be in the midst of a new industrial revolution that could lead to 80 % of the world's population living in middle income countries: "The huge asymmetries between advanced and developing countries have not disappeared, but they are declining, and the pattern for the first time in 250 years is convergence rather than divergence" (Spence, 2011, p. xv).

2.2 The Transforming Swiss Financial Center

In the aftermath of the great financial crisis of 2007/2008, there was a tendency in Switzerland—and possibly in other financial centers as well—to romanticize the past and to look back at the financial sector of 30–40 years prior as having been healthier. Based on my own observations, as well as on anecdotal evidence from others, I cannot subscribe to this assessment. Rather, I consider that period as having been characterized by opacity and a lack of transparency, as well as highly rigid, hierarchical structures.

2.2.1 An Opaque and Hierarchical Place . . .

In the 1970s, business structures in Switzerland—as in many other countries of the Western world—were remarkably stable and predictable. Large companies were institutions built to last, and the goals of stability and organizational survival ranked higher than those of profit and value creation. It was impossible to judge whether potentials were realized or opportunities missed, even with internally available information, let alone information from the outside. Many markets were cartelized, particularly those in the financial industry. Consequently, it was irrelevant to know with which clients and based on which products and services money was earned. And since business results were not known, business leaders—who were not really familiar to the public anyway—were hardly accountable for those results. Furthermore, the *modus operandi* of leading large companies was hardly understood internally, let alone in the public domain, and today's standard leadership tools such as results-accountable structures,

strategic planning and controlling, and business-oriented processes were only just beginning to be applied.

Accounting standards at the time also offered plenty of opportunities to hide the true and fair financial situation of companies. This fact became clear to me when I worked as an intern from 1979 to 1980 in the economic section of the *Neue Zürcher Zeitung* (the leading daily newspaper in Zurich, also known as the *NZZ*). As part of my job, I attended many company media conferences where the information handed out often did not allow the reader to understand for sure whether the company was making or losing money. But answering that question was often irrelevant, since many shares were in the hands of established entrepreneurial families—often in those of the original founders’ descendants—and the development of the share price was not indicative of a company’s performance. Rather, it was usually kept quite low to minimize wealth tax. For all of these reasons, the business world at the time seemed quite opaque.

This lack of transparency and clarity was particularly evident in the financial industry. Most of the five big Swiss banks³ in the 1970s did not have a CEO who was responsible to a board of directors for strategies and performance. Instead, they were governed by collective executive boards with often unclear, individual roles and responsibilities. My father—who held various top management positions during this period at what is now called Credit Suisse—once told me that the agenda of executive board meetings was structured based upon what members had to say according to their tenure with the bank, rather than upon a framework of strategic priorities and business accountabilities. I got the impression from listening to him and others that management structures and styles were strictly hierarchical and that there was rather limited, informal collegiality among members of top management. In fact, addressing each other on a first name basis was often considered appropriate only after retirement.

Moreover, members of top management at the time were considered to have absolute power. A subordinate called by his boss would often stand up and run, not walk, to his boss’s office. The dependence

³ These included Union Bank of Switzerland, Credit Suisse, Swiss Bank Corporation, Bank Leu, and Swiss People’s Bank.

on the boss was complete, and he was perceived as superior in (almost) all dimensions. I personally experienced this virtually dictatorial style of management in 1987, when I worked on an assignment for McKinsey to improve efficiencies within the subsidiary of a large Swiss bank in New York. The Swiss CEO was, in many ways, similar to the famous Captain Queeg of the novel *The Caine Mutiny*. He was so mistrusting of his staff that he would personally stand watch every morning down at the elevator to check whether his people would arrive on time for work. He also spent most of his time in the office studying statistics, controlling, and auditing reports; he approved all minor purchases of office tools from USD 5⁴ and upwards; and he was ruthless in sanctioning even minor mistakes.

From the point of view of employees, professional careers advanced within a company—if at all—in the context of lifelong employment, mostly within the same functional area.⁵ For most employees, the essential criteria for determining salaries were their age and their tenure with the employer; it was not necessarily related to an individual's performance and his contributions to business results. In the banking sector, however, managers could enhance their compensation either through private trades, if they were employed in a securities department, or by accepting board mandates from client companies, if they were employed in a commercial credit department. The benefits of such mandates were seen as far outweighing the problematic consequences which could result from conflicts of interests and from the dilution of management focus.

⁴The USD/CHF exchange rate on December 31, 2014 was approximately 1 (0.9934). Therefore, throughout this book figures quoted in CHF would be the same if quoted in USD.

⁵Changing jobs across banks was particularly challenging, given that there were strong business, political, and military networks among the leading personalities. I remember a discussion I had in the 1980s with a newly retired banker who told me how difficult it was in a small city for an employee to change banks, because the local executives would hear about it beforehand and be able to prevent the move. These same executives could also foster such a move if it was in their interests. Given that the Swiss political and military systems are largely organized like “militias,” business leaders in the past quite frequently held positions as members of parliament and/or high ranking army officers in addition to their professional positions. Nowadays this is a bit less common.

2.2.2 ...With a Domestic Focus...

The identity of Swiss banks at the time was shaped by an understanding of their primary role as service providers for the national economy. Foreign activities were quantitatively and qualitatively of lesser importance, and international private wealth management (more commonly known as private banking) was a hardly visible and rather underappreciated business activity, as compared to that of the powerful commercial bankers and the increasingly successful securities traders and capital market specialists—commonly referred to today as investment bankers. In fact, commercial bankers tended to look down on those private client advisors who were obliged to go to lunch with wealthy, elderly widows. They, on the other hand, could join corporate boards and meet leading industrialists in the country.

Foreign subsidiaries and branches were consequently small; their main role was to recycle the international financial flows that were attracted to banks in Switzerland due to its safe haven role after World War II. The domestic orientation of Swiss banking was also evident in the fact that the prices of their products and services were, for the most part, set by industry-wide conventions agreed to by the most important Swiss bank executives at their regular meetings.

In the 1980s, the banks as well as the interested public still knew very little about the economic value embedded in the Swiss banking business and how important it was to understand the value drivers in order to improve financial returns and competitiveness. A small group of McKinsey consultants (including myself), who wanted to make a contribution to this increasingly important area, developed an economic model which established a profitability structure based on business activity. According to this model, in 1990 all Swiss banks together achieved a return on equity (ROE) of 42 % in international private wealth management and minus 37 % in retail banking. As a result of this work and other analyses, private wealth management was identified and increasingly recognized as an attractive, highly valuable core business that should be appropriately positioned in the context of a Swiss bank's structure.

2.2.3 ... Transformed by the Powerful Forces of Globalization

Within the Swiss financial center, this picture of an opaque, hierarchical, and domestically-oriented place—obviously painted in a pointed and highly generalized way—started to change when it became increasingly influenced by strong globalization forces during the 1980s. While traditional Swiss sectors such as machinery, tourism, life sciences, and chemicals had already become international and export-oriented many decades earlier, this trend now began to affect broader sectors of society, in particular the financial industry.

One important driver of this trend at a macro level was the powerful changes that were taking place globally in society and in financial markets. Progress was being made in health care, which meant that people on average were living longer, and an institutional need for financial capital accumulation was emerging that encouraged collective savings. Similar to what happened in other countries, savings in Switzerland shifted from bank and post accounts to collective investment vehicles such as pension funds, life insurance policies, and mutual funds. As a result, large pools of financial wealth were created that fueled liquid securities markets and enabled the development of professional asset management. Along with this professionalization, a more analytically driven approach to investment research nurtured ambitions for higher financial returns. Consequently, a differentiated profile of investors emerged; they became more specialized and institutionalized, ranging from rather passive pension fund administrators to more active investors who developed their own views on value creation based on the work of independent securities analysts.

These structural changes within financial markets created opportunities for many entrepreneurial families to liquefy their assets by selling entire companies or by issuing bonds or shares, thus providing an additional boost to the development of financial markets. At the same time, many members of the first or second generation of founder entrepreneurs started to withdraw from active roles in management and on boards, leaving the field open for professional managers. With the development of business administration as a science, a new generation of university educated managers started to apply professional methods and tools.

Another outcome from these structural changes was the fact that it laid the basis for today's often-stated and increasingly visible gulf between rich and poor. In many cases, owner entrepreneurs and their families had only been wealthy on paper, because their fortune was tied up in the company. Through the liquefaction of real assets, however, a generation of well-to-do people emerged who could actually spend their wealth. Depending on their character and style, they made visible use of this opportunity by purchasing luxurious homes and/or engaging in extravagant lifestyles. While at first, only members of entrepreneurial families had been able to afford such lifestyles, institutional investors and professional managers soon followed in their footsteps. People sometimes say that traditional entrepreneurs used to be more modest in their lifestyles and did not exhibit their wealth provocatively. This may have had something to do with their attitudes, but it was likely due to the lack of available liquid funds.

2.2.4 From Entrepreneurial to Investor/Manager Capitalism

Now that we have taken a look at the structural changes caused by globalization on a macro level, both within the global financial industry as well as within the Swiss financial center more specifically, let us take a look at what effects it has had on a micro level within companies. Since the early 1980s, particularly within large companies, entrepreneurial capitalism has gradually been replaced by what I call "investor/manager" capitalism.

The shift of management from original owner entrepreneurs to both institutional investors and professional managers has led to a fundamental change in companies' aspirations and has put enormous pressure on the traditional Swiss company model which, prior to globalization, was closer to what is sometimes referred to as "Rhineland capitalism." According to this model, the primary focus of companies is on stability, sustainable growth, long-term health, and intergenerational survival. This is in contrast to the Anglo-Saxon philosophy in which a company is essentially an instrument for making money—the more money is made and the quicker it is made, all the better. In line with the Anglo-Saxon philosophy, and

as a result of globalization, companies influenced by increasingly active institutional investors began turning their focus to the realization of a company's value creation potential. In the 1990s, debates concerning shareholder value maximization were highly controversial. Switzerland was more exposed to such tensions than other larger European countries, as it had historically developed a strong international orientation and connectedness due to its small size and central positioning in Europe. But driven to a significant extent by the globalization of financial markets, this new focus on shareholder value creation was hard to ignore. New information and communication technologies enabled the liberalization of cross-border capital flows and the emergence of international standards in accounting and securities trading. As a result, a quantum leap in terms of transparency about entrepreneurial activities and financial performance was achieved—at least with regard to publicly listed companies. Superior value enhancement vis-à-vis relevant competitors, along with increasingly global competition for corporate control through takeovers and mergers, thus became a question of survival. As a consequence of all of these trends over the course of the 1990s, most publicly listed and internationally active companies in Switzerland adopted superior shareholder value creation as an important part of their leadership mandate.

This modification of the leadership mandate raised questions about the respective roles of professional managers and institutional investors vis-à-vis that of traditional owner entrepreneurs from previous times and is closely linked to the heated, and not yet ended, controversy about management salaries. In the times before globalization accelerated, compensation for upper management was usually approximately ten to fifteen times the average of a normal employee's compensation. Since then, gaps between the highest and lowest salaries in many organizations and across a series of countries have widened quite substantially. It is unlikely that today's corporate leaders are performing so much better than their predecessors 40 years ago to warrant such dramatic shifts in compensation structures. The reasons for this trend are not yet completely understood and are therefore still being researched. They may have to do with the increasing differences in skill requirements and the greater specialization of top jobs within certain sectors. Or they may have to do with the growing worldwide influence of Anglo-Saxon,

particularly American, compensation practices—this was certainly an important factor in the financial industry. Alternatively, they could also have something to do with the shortcomings of corporate governance or with the greater and faster differentiation between “winners and losers” in our highly competitive and transparent Global Era and the consequent need to put high premiums on seemingly winning leaders.

While those and other reasons may explain the developments to some extent, debates about manager compensation still fail to take into account the effect that structural changes caused by globalization had on entrepreneurship, as described in the previous section. Owner entrepreneurs traditionally either enjoyed success or suffered from failure in the form of an appreciation or a loss in company value. But with the shift toward professional managers and institutional investors and the withdrawal of traditional owner families, particularly in large corporations, the value creation or destruction resulting from entrepreneurial decisions had to somehow be distributed among these two new groups. With regard to professional managers, this has usually been done through profit sharing and deferred stock and option plans, and with regard to institutional investors, through the use of asset management and performance fees. By using such compensation mechanisms, the boundaries between the compensation of employees, managers, and investors have become blurred. Simple ratios between the highest and lowest salaries among the employees in a company fall short of explaining these new, more complicated mechanisms for allocating entrepreneurial rewards. The debate about management salaries would consequently benefit from a broader discussion about the implications of a globalization-driven shift from entrepreneurial capitalism to investor/manager capitalism within many companies in terms of the roles, rewards, and risks of investors versus managers.

2.2.5 Changes in Leadership Patterns and Behaviors

In addition to the shift from entrepreneurial capitalism to investor/manager capitalism and the resulting change in companies’ aspirations and philosophies (i.e., to a more Anglo-Saxon-oriented one), globalization has affected companies on a micro level in another, more profound way. Leadership patterns and behaviors, as

well as internal structures and processes, have been changing. One clear example of these changes was the dismantling of powerful location chiefs in many corporations. As a consultant, I had been able to observe this change in several companies. In the 1980s and 1990s, power began shifting away from locally integrated control centers toward centralized, far away specialist staff functions. The resulting changes in organizational structures and processes were profound. Simple vertical relationships based on hierarchical authority were replaced by multiple, horizontal, partner-like relationships based on complementary, professional capabilities, which often diluted accountability and made decision-making highly complex. Static reporting relationships were also supplemented by more dynamic, temporary project teams. Such changes created broader development opportunities, but they also led to disorientation among many employees who no longer knew where to turn for guidance. Leadership skill requirements have also been changing, insofar as they have an increased focus on so-called “soft skills” in areas such as team building, interactive problem solving, change management, and communication among various stakeholders. It was based on such observations and experiences that I started to develop what I would later call an inclusive leadership approach, which I will expand upon more extensively in Chaps. 3 and 4 of this book.

The dismantling of powerful location chiefs could be observed in the financial industry as well. For example, until shortly before I joined Swiss Bank Corporation (SBC) in 1994, its basic organization was determined by geographic factors. Power lay in the hands of local and regional fiefdoms, covering areas like Zurich, Basel, Geneva, London, and New York. These organizations even managed their own balance sheets with high degrees of autonomy and sometimes took adverse positions against each other in selected financial instruments. When I paid courtesy visits to these local organizations briefly after joining the bank, surprisingly the local leaders often questioned why they would be affected by a reorganization at headquarters. These local leaders were mostly impressive, dominant, charismatic personalities who took the most important decisions (e.g., whom to grant credit) by themselves and had a clear overview of their clients, their employees, their business processes, and their resources. They

were well connected with the local business community and often engaged in local society at large, whether in politics, the military, cultural endeavors, and/or charitable affairs—similar to what classical owner entrepreneurs at their best had done. In the next section, I will describe other structural changes that took place at SBC (and after the merger, UBS⁶) in more detail, based on my own experiences there, as an example of how several companies had to undergo a comprehensive transformation process in order to become more globally competitive as well as better cope with the new challenges and capture the new opportunities offered by globalization.

2.3 My Experience with Swiss Bank Corporation and UBS

2.3.1 Consolidation of the Financial Industry

Consolidation in the financial industry, which began in the early 1990s, was shaped by several important forces for change across the globe: the new and more demanding needs of clients, the liberalization of markets, the increased competitive intensity, as well as the growing importance of technology and its implications for the critical size of an organization. All of these were catalysts that encouraged banks to adopt more client-oriented business models and to become more ambitious about growth. Whereas 40 years ago strategic thinking was often driven primarily by processing and logistics capacity—because these functions required massive capital expenditure and long-term planning—with globalization the perspective began to shift toward the market and client ends of the business model. Client relationships began to be analyzed and segmented, and product usage and profitability began to be measured.

Besides these more global trends driving consolidation, a local force for change was the severe real estate crisis that Switzerland experienced during the second half of the 1980s and the first half of the 1990s—as did other European markets, particularly in the Nordic region. For Switzerland, this crisis was the first of its kind, at least

⁶ UBS was the name chosen for the bank that resulted from the merger of Union Bank of Switzerland and Swiss Bank Corporation.

since the end of World War II. The restrictive interest rate policy adopted by the Swiss National Bank (SNB) at the time challenged the broad expectation of continuously rising real estate prices, thereby causing a significant decline in real estate values. Another major cause of the real estate crisis was a lack of sophisticated credit risk measurement and management functions within the Swiss banks (Wuffli & Hunt, *Fixing the Credit Problem* 1993).

Bank shareholders ultimately had to absorb approximately CHF 40 billion in losses—a large amount for a small country like Switzerland (Baumann & Rutsch, 2008, p. 98)—and these severe losses put the banking system under substantial stress. Many banks, both large and small, did not survive the crisis and ceased to exist, in particular those that were not able to cross-subsidize their domestic real estate credit business with profits from their private wealth management business. Luckily, the then prevalent accounting rules permitted a gradual absorption of the losses. This experience was traumatic for the banks as well as for the Swiss banking regulator (the equivalent of today's Swiss Financial Market Supervisory Authority—FINMA) and led to substantial changes. As a result, in the early 1990s banks began to introduce internal credit rating systems, modify products, and differentiate interest rates according to the underlying credit risk. The Swiss banking regulator, for its part, began to adopt a systemic approach to financial crisis prevention and resolution.

When I occasionally meet with Daniel Zuberbühler, who was the top banking regulator in charge at the time, he likes to remind me jokingly that an innocent question I raised at a social occasion was one of the starting points for the stress test thinking adopted by regulators. I asked him what he would do if the Swiss banking sector would run out of equity due to all of these massive provisions on bad loans. He admitted then that he had never thought about such a scenario but that he would take it up with his colleagues. Many years later this process experienced its moment of truth when it was applied to UBS in the aftermath of the 2007/2008 global financial crisis.

The three big Swiss banks that survived the first wave of consolidation in the early 1990s (i.e., Union Bank of Switzerland, SBC, and Credit Suisse) all pursued similar strategies of capturing opportunities

from globalization trends.⁷ The main focus for all was to seek a profile that could leverage their distinctive positioning in international private wealth management and, more generally, the traditional characteristics and strengths of Switzerland, while taking into account the overall natural constraints resulting from a small home market and a consequently restricted capital base. One strategic element that all three banks had in common was the restructuring and protection of the franchise serviced out of Switzerland, for both domestic and offshore clients, with the aim of improving quality, efficiency, and profitability, and thereby reducing the need for cross-subsidization from private wealth management. The other common element was their goal of building a globally competitive platform of attractive financial businesses that had substantial growth potential yet limited capital requirements, such as investment banking and institutional asset management. None of the “big three” had any appetite for engaging in retail banking outside of Switzerland.

2.3.2 Swiss Bank Corporation (SBC)/Union Bank of Switzerland Merger

Of the three remaining big banks in Switzerland, SBC followed the most ambitious growth strategy, which was mostly driven by mergers and acquisitions. It acquired O’Connor, an innovative equity derivatives trading house in Chicago, in 1992, and the traditional British merchant bank S.G. Warburg, in 1995, as the primary building blocks for its investment banking business. In addition, it purchased Brinson Partners in 1994—a highly successful, global institutional investment management firm based in Chicago. The objective of these transactions was to transform SBC’s strategic positioning, its capabilities, and its culture.

When I joined SBC in 1994 as Group CFO, I became part of a team that was determined to transform the bank even further, in a fundamental way. SBC had gone through very difficult times, following big credit losses in Switzerland and abroad during the late 1980s/early 1990s’ real estate crisis, and it was clearly seen as number three

⁷ Bank Leu, one of the former five big Swiss banks, existed as a stand-alone bank up until 1990 and thereafter as a subsidiary of Credit Suisse.

among the three big Swiss banks. It was obvious to us that this company, the market capitalization of which was hovering at about 80 % of its book value, was dramatically undervalued. We thus saw the opportunity to substantially enhance the value of the business, beyond the acquisitions we had made, through improved transparency and accountability, better risk management, systematic strategic leadership, efficiency improvements, and more results-oriented and accountability-driven structures. Taking on more risk was not part of that plan, however—quite the contrary. Given that the bank had been traumatized by past credit losses, it aspired to adopt a more advisory-oriented approach, rather than one driven by the balance sheet, to serve its corporate and institutional clients. The overall value creation opportunity at the time was estimated to be approximately CHF 20 billion, which would mean a tripling of SBC's market value from CHF 10 billion to CHF 30 billion over 3–4 years.

As a result of all of the changes that we implemented thereafter, by 1997 SBC had indeed succeeded in more than tripling its market capitalization in just 3 years. Against the background of dramatically altered business dynamics in the financial industry, both worldwide and in Switzerland, we were thus ready to begin looking at other options for capturing the opportunities offered by globalization trends. Yet, the various acquisitions we had previously made had exhausted our capital strength. Therefore, we had to analyze different alternatives to fulfill our global aspirations. While link-ups with insurance companies were popular at the time, we were not convinced about their business benefits. Given my experience working for both banks and insurance companies as a consultant at McKinsey, I questioned the synergy potential of this option during internal debates. A merger with Credit Suisse was likewise quickly ruled out, because the two investment banks were similarly successful, proud, and ambitious. A merger-driven integration would consequently cause disastrous value destruction, as there was no obvious leader among the two.

After an initial attempt to merge with Union Bank of Switzerland (hereafter referred to as “Union Bank” in this section) was abandoned in 1995, this strategic option moved into focus again in 1997 when Union Bank seemed weakened due to various adverse developments. Specifically, it was being assaulted by one of the most aggressive

activist investors in Switzerland at the time, whose objective was to force substantial strategic and structural change upon the bank. Union Bank had also suffered huge losses from the use of complicated derivative trades in its investment bank, and it had significant structural and leadership issues following a suboptimal corporate reorganization. In February 1997, two top level representatives of Union Bank, our CEO, and I thus met for an initial round of serious merger discussions.

We quickly agreed that the major trends in the industry would be further globalization, consolidation of at least parts of the sector, and intense competition. We also determined that both of our companies were challenged in living up to their respective aspirations and implementing successful strategies based on their own strengths. We therefore all felt an urgent need to act, and our vision and goals were at the center of our debate. We aspired to build a sustainably successful Swiss banking group with leading positions in the international private wealth management, global investment banking, global institutional asset management, as well as the Swiss corporate and retail clients businesses. We wanted to create value for clients, shareholders, and bank employees alike. We also agreed that once the integration process was complete, the long-term goal of the new bank would be to become one organization with one brand that could leverage synergies across its various fields of activities, rather than a loosely coordinated conglomerate of different businesses. To achieve this vision, a rapid integration of the two banks was necessary, which would lead to aggressive cost savings, a consequent divestment of non-core activities, and an organizational model that would be based on clear accountabilities for results and meritocratic leadership appointments. However, two things we could not agree on were the name and the domicile of the new bank, and we did not (yet) spend a lot of time on determining key executive positions.

It was already clear then that such a merger would allow us to come close to our aspirations in the private wealth management, institutional asset management, and Swiss corporate and retail clients businesses. On the other hand, we felt that we were lacking competitiveness in investment banking, given that 50–60 % of the investment banking fee pool worldwide was concentrated in the U.S., and even with our investment banking businesses combined, we would still be

below critical mass in that market. Common industry opinion at the time was that only the top six to eight players in global investment banking would profitably survive in the long run. And without a critical scale in major markets (particularly in the U.S.) and a comprehensive palette of financial products, we would have no chance of succeeding in that global business. Based on our assessment of the bank's strengths and weaknesses, we therefore agreed at the first merger discussion meeting in early 1997 that another transaction *had* to follow, preferably in the U.S. investment banking industry. This gap in competitive profile hurt us from the outset of the merged bank. We tried to close it with the acquisition of PaineWebber in 2001, and then with an aggressive organic expansion strategy in fixed income (including some segments of the U.S. mortgage-backed securities markets). But in retrospect, these attempts turned out to be among the main causes of the fatal consequences from which UBS suffered during the 2007/2008 global financial crisis.

It was an intense, very open, and constructive merger discussion meeting after which we all felt that we were writing economic history in planning this, by far, the biggest and most complex merger in our industry at the time. For me personally, it was an important lesson in inclusive leadership. The debate went far beyond pure business aspects and covered many aspects related to the broader ambitions and goals of the Swiss financial center, including consequences for Switzerland as a country. And for me it was a great example of a discussion among potential partners where bridges were built despite the different organizations and hierarchical positions of the people involved.

After weeks of intense and turbulent negotiations, the process came to a halt during the summer and resumed again in the autumn of 1997. Finally, on December 8, 1997 we were able to announce the successful conclusion of our merger negotiations. We caught everybody by surprise; since there were so many rumors at the time, nobody took merger stories seriously anymore. And since such announcements then were not yet met with the cynicism which is often characteristic of today's markets, our share price made a significant jump, thereby already reflecting the full value potential of merger synergy yet to be realized through hard work over the coming years.

In the core team, we knew how difficult the implementation of our ambitious plans was going to be, and we had no illusions about the next 2–3 years. However, there were at least two important global issues that we did not know about then that would complicate the implementation process even more. First of all, at the time of the merger, there was a highly emotional and controversial international discussion taking place about the role of Switzerland and its banks during and after the Second World War with respect to unclaimed assets that originally belonged to Holocaust victims and their survivors. Following complicated and lengthy settlement discussions, these darker aspects in the history of the Swiss financial center finally ended 15 years later, in May 2013. At that time, New York judge Edward Korman concluded in his final report that USD 1.24 billion would be authorized for payment to more than 457,000 Holocaust victims and heirs, and USD 54.5 million would remain in residual funds—amounting to a total of approximately USD 1.29 billion paid to Holocaust victims (Court Order filed by New York judge Edward Korman, who oversees the management of the fund, 2013). This issue was very challenging for us to deal with, as it distracted leadership from focusing on realization of the merger. But it provided another valuable lesson for me in terms of inclusive leadership—namely, that the bank should have been better prepared at the time to deal with such a complicated international challenge that involved historical and political perspectives and went far beyond immediate business dimensions. This experience was one of the reasons why UBS later professionalized their public policy management function and hired professional political leaders to advise and support them.

Another global issue we had to deal with following the SBC/Union Bank of Switzerland merger was the Asian crisis, which broke out in 1998 and seriously affected a prominent hedge fund, Long Term Capital Management (LTCM). Before the merger, Union Bank had engaged in a complicated structured transaction with LTCM that subsequently resulted in a loss of approximately CHF 950 million in the autumn of 1998. Consequently, the 3 months old UBS (the merger having been consummated in June 1998) was already exposed to a huge crisis of confidence, which resulted in the resignation of the Chairman of the Board of Directors and three members of the Group Executive Board (GEB). While terrible at the time, this crisis also had

some substantial benefits: it cleared the leadership situation that had started to become difficult, because former managers of SBC and Union Bank were positioning themselves against each other, and it created a sense of urgency to the whole staff that it was time to close ranks and execute the integration plans. It also led to an in-depth analysis of UBS's risk management approach, which was one of the reasons why UBS was spared of subsequent losses that had challenged many other banks during the Enron scandal/bankruptcy in 2001, the collapse of Worldcom in 2002, and the Argentinian crisis of 2001/2002.

All along this intense, risky, and disruptive path of mergers and acquisitions at SBC (and later UBS), change was the only constant. This underlines one of the four guiding principles of inclusive leadership: it needs to be constantly dynamic. I liked to joke that we spent our summers hunting for deals and the winters integrating them and closing the annual accounts. Despite all the textbook wisdom which says that sequential M&A strategies tend to fail and destroy value, as a team we were proud to have achieved a total shareholder return relative to the D.J. World Bank Index of +92 index points during the period 1995–2000 (Wuffli, 2007).

2.3.3 Organic Growth

The merger between SBC and Union Bank is one example that illustrates the opportunities, challenges, and transformations within the corporate world which resulted from the accelerated globalization trend of the last 40 years. However, the years following the merger emphasize even better the large contrast between huge globalization gains and benefits on one hand and the tremendous risks and vulnerabilities involved on the other hand. They also demonstrate how closely related success and failure are, and how volatile and fast changing the corporate world has become.

2001–2006 turned out to be golden years for the financial industry, for UBS, as well as for myself, as I had the honor to serve as President of the Group Executive Board (GEB) and then as Group CEO for UBS. The bank increased its value by 207 % during that time, outperforming almost all of its relevant competitors, and in early 2007, it was among the top ten global banks in terms of market

capitalization. In the last public speech I made before retiring from UBS in early July 2007, I attributed our success (among other factors) to our ability to capture benefits from our unique positioning in the financial industry segments that were growing significantly faster than GDP, namely private wealth management, institutional asset management, and investment banking. In 2006, 42 % of our income was generated from private wealth management and institutional asset management, 46 % from investment banking, and the remainder from the Swiss corporate and retail clients business and the corporate center (Wuffli, 2007).

But this success was not without its risks and challenges. Take for instance the challenges we faced in striving for organic growth. In the preceding period, there was little room to think about organic development and growth given the dominant themes of transformational mergers and acquisitions. When I reassessed the situation after my appointment to the top of UBS Group, I continued to share the view of most of my management colleagues that the main focus of the next era had to be organic growth. We felt that we had built the necessary platform to organically develop and grow the business, although we left open the possibility to achieve accelerated growth in some areas through smaller acquisitions. I summarized this view as follows in an interview with the UBS employee journal “Our Times” in January 2002:

During the last decade our group has achieved a highly successful development. The change of our company has been supported through a series of major transactions. Each of those made a specific strategic contribution. The common denominator was a clear, ambitious strategic framework aimed at building leading positions in attractive global businesses such as wealth management and investment banking. . . . For the first time in our history we now have a platform that meets our ambitions and has no major strategic gaps left. . . . Our businesses are well positioned to grow primarily based on their own strength. (Wuffli, 2002, p. 3f.)

However, in the years after the turn of the millennium, we became increasingly concerned about the size constraints of UBS and questioned ourselves whether we were big enough to sustainably compete with the existing and emerging global megabanks. At that time, Citigroup, HSBC, and Bank of America had market capitalizations that dwarfed ours. The big Chinese banks, for their

part, were planning their initial public offerings—in one case even with our help—and it was expected that these giant newcomers would soon enter the global market as well. It therefore became evident that if we did not capture the growth potential that was inherent in our business structure, thereby maximizing our value as reflected in our market capitalization, we would become a take-over target for these global megabanks over time. This would, in turn, have had consequences for Switzerland as a country that were similar to those experienced in other industries, where a lack of ambition and skill caused the marginalization of once famous and successful companies.

Fortunately for us, one weakness of these global megabanks was that they lacked critical scale in global wealth management, which was one of our strengths. As a result, they were highly attracted to our profile, which led to high level talks with several of them from 2002 to 2005. However, in the end we decided that we were strong enough to go it alone, and frankly, having gone through the SBC/Union Bank of Switzerland merger just a short time before, we knew about the tremendous challenges and risks of executing transactions of such complexity. We thus had very limited interest in embarking on such a path again, in particular on an even bigger, even more global scale. For this reason, most of us were aligned to concentrate our strategic priorities on organic growth.

Although we were confident that we had built the necessary platform to organically develop and grow the business, we were not sure about *how* to grow our businesses organically. We were not experienced in this, and the market was not used to expecting it from us. We were known by analysts and investors for our successful acquisitions and integrations, but not for our successful, organic business growth. Ultimately, we decided to select a few specific growth projects that would be sponsored and monitored at the GEB level. The most important were the creation of a European private wealth management business (i.e., onshore businesses in the most important European countries and cities), the establishment of an M&A advisory business in the U.S. (which would allow us to effectively compete with U.S. investment banks for U.S. corporate and institutional clients), and the expansion of our footprint in new markets.

A particular highlight during this time was the position and charisma that UBS was developing in Asia, especially in Japan, Singapore, and China. Increasing our share in this fast growing part of the world represented an important strategic priority for the UBS Group. I therefore personally encouraged and supported leadership initiatives to foster our business in this vast geographic area, and I have many fond memories of fascinating business trips and encounters with impressive personalities. These experiences opened my eyes to a part of the world that was new to me and thereby contributed to my thinking about inclusive leadership and its need to be more holistic and broadly applicable.

A more critical aspect during this period, and an area of constant concern that was related to our goal of organic growth, was our fixed income business. Increasing our position and market share in this business had been identified as a key priority during our merger discussions. Because of our structural weaknesses in several areas of fixed income, however, we were hardly able to benefit from the strong market growth resulting from the low interest rate environment at the time. The fact that we lagged behind our most relevant competitors in this segment was negatively commented on by analysts and investors after almost all quarterly results presentations. We were often not even among the top ten global providers, whereas the goal was to reach a rank between 5th and 8th.

We saw this gap as the Achilles heel of our overall strategy; without a credible position in fixed income, our competitiveness in investment banking would be at stake, and without a competitive investment banking business, our long-term success in important segments of the private wealth management business would come into question. Once again, the important thing here (as in other global businesses) was to be present in the U.S. market, given that over half of the world's revenue in the fixed income segment was generated in this part of the world. One answer we came up with to meet these growth challenges, particularly with regard to the U.S. fixed income business, was to convert our highly successful proprietary trading desk into a hedge fund under a separate brand called "Dillon Read Capital Management (DRCM)" to make it accessible to our clients. While the idea made sense on paper, it was badly executed and had to be closed again soon after its launch. The loss of this unfortunate

episode amounted to CHF 229 million (UBS, 2007, p. 2). While I am the first to regret this failed business initiative and the losses that followed, this episode should be put into perspective: between 2002 and 2006, UBS earnings doubled from CHF 5 to CHF 10 billion.

2.3.4 The Pitfalls of Success

UBS was the only large scale financial services company where global private wealth management—then perceived as one of the most attractive financial businesses in terms of growth and profit potential—was so much at the core of the strategy, representing close to half of the Group’s overall income and considerably more in terms of value. We therefore found it relatively easy to convince clients, shareholders, and talented people (either current or potential employees) that we were committed to further strengthening and growing this business, which was highly reputable at that time. Results were consistently improving, and qualitatively we were seen as a global winner. UBS had reached the league of respected financial institutions—the first time for a Swiss bank—together with names such as Citigroup, Goldman Sachs, and HSBC. It had also received recognitions from various institutions, which confirmed that the bank was on a path to success.

In the years 2005 and 2006, it seemed to the outside world, and many of our own staff, that nothing could go wrong at UBS. We were seen as the shooting star in many areas. We had also convinced ourselves that our approach to risk control was the best in the industry, and in internal debates we talked condescendingly and with increasing disrespect about our competitors. I found it increasingly difficult to deal with our success, given these signs that complacency and arrogance were creeping into parts of the organization. At the same time, many of us, both at UBS and at other banks, started to develop feelings of unease about the sustainability of the global financial industry boom, constantly nurtured by the all too generous monetary policy of most Western central banks. Nevertheless, despite the unease, the market continued to flourish. As Citigroup’s former CEO Charles (Chuck) Prince famously said, “As long as the music is playing, you’ve got to get up and dance” (Nakamoto, 2007).

I remember one of our annual meetings in Basel, in January 2005, when a few dozen global bank CEOs, central bankers, and bank supervisors got together to assess the state of the industry “off the record.” It became clear to me, and I assume to most of the participants, that interest rates were too low and that the price for credit was not sufficient to compensate for its risk. As I was driving home that Sunday, I thought that if I were the Chairman of the Federal Reserve I would seriously consider a surprise rate hike to shock the market into a rebalancing process. It would have made the industry furious, but this might have been the most impactful action taken by an individual prior to the financial crisis of 2007/2008 that could have prevented the worst.

Many books have been written about the genesis of that financial crisis, which unfolded in the second half of 2007 and thereafter, following my departure from UBS. Given the importance and impact of this unprecedented event, I likewise feel compelled to share some of my reflections on it. In line with expert observers such as historian Niall Ferguson and economist Raghuram Rajan (today’s Governor of the Reserve Bank of India), I do not believe in a simple explanation. Rather, the causes were complex and multi-dimensional and likely originated from deep structural and systemic fault lines across public and private sectors, both in the real economy and in financial markets, across different countries, as well as between investors, intermediaries, and debtors. As Rajan describes in his analysis, these forces and the system dynamics went far beyond specific personalities or institutions (Rajan, 2010, p. 4).

At the same time, it would have been too easy for those in leadership roles immediately before and during the crisis to blame “the system” and look at it rather as a natural disaster than as a man-made catastrophe. To the contrary, people in leadership positions such as myself and many others could have taken steps to prevent the worst, if we had had the imagination to consider seemingly implausible scenarios that developed in reality and had we applied more moderation. This includes bankers with aggressive growth targets, as well as central bankers who nurtured the illusion of free money. Politicians with the dream of home ownership for all (even for those without income) could equally be blamed, as could bigger and smaller institutions as well as private investors who were hunting

for attractive yields with supposedly low risk. With the benefit of hindsight, inclusive leadership could have helped us to prevent and manage at least parts of the crisis: by encouraging leaders to look beyond their respective silos, to seek a better understanding of global dynamics, to adopt an integrated and more holistic perspective across sectors, and to be more thoughtful and consequent about ethics and virtues.⁸

Many global banks (including UBS) were severely affected by the crisis that unfolded after the summer of 2007. This was triggered by two developments. The first was the turbulence that started in August 2007, when certain categories of U.S. asset-backed securities with high quality credit ratings worth billions of dollars became illiquid and caused massive, unrealized losses on many banks' books. The second event was the downfall of Lehman Brothers in September 2008. Within a few days, the interbank market was brought to a standstill, and governments were required to rescue numerous banks in various countries—including UBS in Switzerland, which had accumulated losses that amounted to approximately CHF 50 billion. According to the Boston Consulting Group, the events that took place on September 15, 2008 (e.g., the Lehman Brothers' bankruptcy, Merrill Lynch's emergency bailout, and the reorganization of both Goldman Sachs and Morgan Stanley from investment banking structures into bank holding structures) brought on "the end of America's depression-era financial system" (Rhodes et al. 2008, p. 1).

These events were unprecedented for the current generation of financial market participants who had no relevant experience, and accordingly no adequate preparation, for a crisis of that scale. I do not share the view that bankers were too naive in relying on standard models. UBS, as well as many other practitioners, was used to looking at different adverse scenarios and calculating stress implications. It had adopted stress limits as the primary risk control instruments at the top of the organization following the last crisis in 1998, when all risk

⁸ Reflecting on the genesis of the financial crisis reminds me of the public debate concerning the causes and responsibilities for World War I that was reignited in 2014, on the occasion of the hundred year anniversary. In his book *The Sleepwalkers: How Europe Went to War in 1914*, historian Christopher Clark even draws an explicit parallel to similar debates concerning European political leaders when dealing with the debt situation. (Clark, 2013, p. 555ff.)

methodologies were reviewed and partly adjusted. What is true, though, is that many (including myself, had I still been with UBS at that time) did not have the imagination to predict that these kinds of global distortions with such catastrophic consequences were possible within such a short period of time. As a result of this observation, I have acquired a new level of humbleness concerning the confidence in my own ability to imagine and forecast the future.

As is publicly known, UBS was more affected by this crisis than some of its big European and American competitors who had similar business strategies. This had a lot to do with the aspirations we had set and the strategic choices we had made within UBS management in the years preceding the crisis. With the benefit of hindsight, we were to some extent overambitious (particularly in investment banking) and some choices turned out to be wrong. Some of those decisions can be traced back to the time of the merger between SBC and Union Bank of Switzerland. As a consequence of the traumatic mortgage crisis in Switzerland in the late 1980s/early 1990s, SBC was very averse to taking on illiquid credit risk and was therefore particularly careful to avoid substantial concentrations of non-tradable credit positions. Already before the merger, SBC had significantly reduced its international credit portfolio because of considerable credit losses.

After the merger another realignment of risk took place, much to the annoyance of many clients who considered UBS as being excessive in avoiding credit exposure. We thus encouraged investments in liquid securities with strong credit ratings, and we expected the investment banking leadership to grow the fixed income business in a way that would focus on highly rated, tradable securities. These included government securities, but also U.S. originated mortgage-backed securities (MBS), which were considered to constitute the second biggest fixed income market in the world at the time—one with a reputation of being highly diversified and reasonably liquid. Investors, rating agencies, and regulators liked this approach. UBS was considered to be the bank that had best learned from the mortgage crisis, and its balance sheet was considered by many as one of the best in the sector, thanks to its high credit quality and high liquidity. The Swiss Federal Banking Commission wrote the following in its “SFBC-UBS Subprime Report” on September 30, 2008:

Based on its experience from past credit crises (namely the significant losses it sustained on commercial mortgages in Switzerland in the 90's), UBS strictly preferred securitized and thus easily tradable assets over illiquid assets, which is why UBS's balance sheet, prior to the outbreak of the crisis, was generally considered one of the best in its peer group. In practical terms, this, together with its AA+-rating (S&P), meant that UBS could obtain funding in the capital markets on favourable terms. (Swiss Federal Banking Commission, 2008, p. 6)

With the benefit of hindsight, in the years leading up to the subprime crisis, we were overconfident in our belief that tradable and highly rated securities would be reasonably liquid at all times, and we clearly took too much comfort from strong credit ratings. The Swiss Federal Banking Commission was right when it stated in its report that “insufficient attention to the inherent risks related to balance sheet growth and overconfidence in the existing risk management and control mechanisms appear, in retrospect, to have been significant failures” (Swiss Federal Banking Commission, 2008, p. 8).

Besides the sheer size of UBS's exposures, the flaws in risk management were another key reason for the above-average severity of the crisis for UBS. Partly due to our success in risk management during the last crisis from 1999 to 2001, we had developed too much confidence in our own risk managers and systems. However, as it became clear once the crisis had developed, UBS was not capable of reliably aggregating, measuring, and managing all of the risk positions affected by the negative developments in the U.S. subprime market. It had been common knowledge, based on anecdotal evidence since at least 2006, that the subprime mortgage segment was inflated, even though nobody at the time probably knew by how much. Our risk managers were convinced, and made us believe as well, that the market risks had been correspondingly hedged and that our counterparties enjoyed a favorable credit quality.

Today, I am extremely grateful to my former colleagues who—together with highly professional central bankers, bank supervisors, and members of the Swiss government—put together a rescue package that was unmatched by any other government or financial institution in terms of quality. It allowed Switzerland to exit relatively quickly from the crisis without any damage to taxpayers, and the Swiss government even realized a profit when selling back the UBS shares to the market. It also enabled UBS to recover and position itself

once again as a highly competitive, global player after it had gone through major changes as a result of lessons learned from the crisis.

2.3.5 Insights and Takeaways

What are some of the relevant insights and takeaways from this rather impressionistic glimpse into the developments of the Swiss financial center, with a special focus on SBC and UBS, based on the positions I have had the opportunity of holding over the last 30 years? First of all, the changes that have taken place, to a significant extent due to interconnected, powerful globalization forces, have been profound and all encompassing. Many of them happened because new opportunities with beneficial impact became available that could be captured by the many people involved, such as clients, employees, and shareholders. I could not disagree more with former U.S. Federal Reserve Board Chairman Paul Volcker who, in the aftermath of the 2007/2008 global financial crisis, famously said that the only beneficial innovation that the financial industry has produced in recent years is the ATM (automatic teller machine) (Ebrahimi, 2012). From what I have experienced, the financial industry has realized tremendous improvements in terms of product offering, client service, risk management, and overall process efficiency.

Furthermore, in addition to opportunities, the pace of transformation has also generated high levels of volatility and an accelerating occurrence of accidents and crises, which has put huge pressure on organizations and significant, albeit temporary, damage to those exposed to risk. Within the financial industry specifically, there have been unplanned changes in top management positions over the past 30 years at almost all financial institutions in Switzerland, often as a result of externally imposed crises and/or internal failures. And in my approximately 14 years within top management at SBC, respectively UBS, the occurrence of turbulence and crises was the rule, not the exception. I would assume that this was true as well for large parts of our industry, and even the economy overall.

And finally, the transformations in the corporate world observed over the last four decades have transcended business models, leadership systems, and industry structures. In many ways the changes have been radical, in the true sense of the word, insofar as they have

affected the roots of capitalism and its underlying virtues. Traditional entrepreneurial virtues such as long-term commitment, responsibility, engagement for societal needs, and lifelong loyalty between employer and employee, to name just a few, have been eroding and are being diluted. Meanwhile, new virtues that can convincingly replace some of the old ones have not yet fully emerged. Against such a background of profound changes and challenged leadership, it is not surprising at all that feelings of disorientation are widespread. It is therefore natural that there has been a broad erosion of trust, as trust depends upon a minimum of stability and predictability. But wishing old virtues back is not an option, because old structures have been irrevocably transformed. Leaders have no alternative but to find new virtues and a new ethical orientation that help re-establish trust where it was lost and that convince people about the beneficial aspects of the transformational changes we are experiencing. Hence, I will next explore why ethics matter so much, especially within the framework of an inclusive leadership approach.

2.4 It's Ethics, Stupid

Accelerated globalization and its consequences, as previously described, have expanded the scope of thinking and acting for several billion people who are no longer inhibited by absolute poverty and are now part of a growing middleclass. The breakdown of traditional authoritarian social structures (e.g., those that constrained women relative to men or the young relative to the old) in an increasing number of societies has facilitated this change. These people can now enjoy the many liberties that we already enjoy in shaping our lives, liberties that were not available to our forefathers. For instance, we have immediate access—per mouse click—to just about everything happening in the world, we can benefit from a global offering of products and services in almost all urban centers, and we can travel across the globe and familiarize ourselves with foreign cultures and even different ethical and spiritual traditions. Young people, in particular, increasingly enjoy the opportunity to engage in cross-border experiences and education either through youth exchange programs or international university curricula.

From a business perspective, new and small companies can now tap into non-domestic markets and operate complicated cross-border business models with rather low entry barriers. For example, internet platforms such as elance.com allow them to resource projects within short time frames and to work with freelance project members located in countries as distant as Bangladesh, the U.S., Australia, Romania, India, and Pakistan. Businesses also have many options to structure functions across various locations and to recruit local talent. Furthermore, both organizations and private individuals are able to get access to investment and debt issuance opportunities at a whole range of modern financial centers. All of these choices were not readily accessible only a generation ago, and if they were, then to only a very small proportion of the world's population. As the longstanding professor of sociology at the University of St. Gallen Peter Gross described it: "this multi-option society resembles a gigantic supermarket and stands somewhere between freedom and homeless disorientation" (Gross, 1994, p. 32).

In spite of its benefits, businesses are also challenged by our increasingly complex and fast changing world. My brief analysis of the global financial crisis of 2007/2008 demonstrated how chains of action and reaction are more complicated and have more ripple effects given the increased speed of transformation. This leaves less time for sound analysis and evaluation and requires a bigger number of complicated decisions to be made per unit of time, albeit with a higher level of ignorance. And since the effects of these radical changes have begun to transcend countries and multiple sectors of society, their consequences are becoming very difficult to assess.

This tremendous expansion of scope creates challenges for the growing middle class as well; since there are more choices available, it is indeed harder to make the right choices. Whereas in previous generations parental role models and a lack of realistic alternatives often provided natural orientation and limitations, today guidance is needed to find answers to questions such as the following: How do people become aware of all the choices they now have? How should they shape their life's journey? Where should they live if they enjoy relationship networks across multiple countries? How should they balance professional activities, family life, and engagements on behalf of society, and how should their individual desires for

fulfillment be prioritized among these various obligations? What can/should be accomplished in parallel versus sequentially? In short: What is a good life in today's Global Era?—which is a quintessential ethical question.

2.4.1 New and Old Ethical Behaviors

All along this fast pace of transformation, perceptions about what is good ethical behavior have either been changing or have even been reversing. Take for example Swiss banking's long-established policy of secrecy regarding client information. In postwar Europe, it was natural for wealthy families to keep and manage a substantial part of their private wealth abroad, initially to a large extent in Switzerland, and later with a more diversified approach in such places as Singapore. Why? Because they still had vivid memories of how their own countries had destroyed the wealth they had held domestically through war, confiscation, and inflation. In the case of Germany, this happened at least twice within one generation. Bringing private wealth offshore (often with the side effect of tax avoidance) was therefore seen as broadly legitimate, and banks servicing the needs of these clients did not have ethical quarrels about such behaviors. Most Europeans—particularly those from countries with a monarchical heritage—felt more comfortable placing their offshore wealth in Switzerland, since sovereignty there lies in the hands of the people. Europeans could be assured that their wealth would not be abused, for the Swiss people would react very quickly if the Swiss government tried to abuse the power that the people had ceded to them. For Swiss bankers, the main goal was to protect the interests of their clients.

This positive assessment of banking secrecy started to change around the turn of the millennium when, often after the death of the family “patrons” from the first postwar generation, the heirs decided to voluntarily declare their private wealth. War memories had faded, and governments had developed public service-oriented strategies, professional capabilities, and democracy-based laws that reduced the risk of maintaining wealth at home. Also, national financial markets and systems were reconstructed after World War II and had become competitive again in terms of their products and services. This trend toward keeping one's wealth onshore accelerated after the global

financial crisis of 2007/2008 when governments tightened up their efforts to collect taxes by enforcing powerful standards regarding international information exchange on tax matters. Banking secrecy was thereby replaced by a duty to create transparency regarding the client's tax status and to only accept taxed wealth. Within half a generation, the meaning of responsibility vis-à-vis clients and governments had turned upside down. It is no wonder that client advisors in the banking sector today are confused about their roles.

Another example is insider trading. Trading financial securities based on special knowledge of internal situations not known by the public has been the basis of financial markets over centuries. Until very recently, no one considered it wrong for people to become wealthy from insider trading. Rumor has it that already in 1815, given his knowledge about the outcome of the Waterloo battle forty-eight hours before the British cabinet was informed, Nathan Rothschild speculated that the victory of the British army would send the prices of UK bonds soaring upwards and thus purchased great amounts of British government bonds. He then sold them a year later at a price that was 40 % higher and made a profit of about £600 million (Ferguson, 2008, p. 86). Similarly, Joseph Kennedy (the father of John F. Kennedy) built a substantial fortune based on insider knowledge before and during the great depression of the 1930s until he, as the first Chairman of the U.S. Securities and Exchange Commission (SEC), introduced a minimum standard for regular disclosure by listed companies.⁹ In fact, until the late 1980s, insider trading was broadly seen as a legitimate way to create wealth, not only in Switzerland but also in other international financial centers such as the City of London. It was not regarded as unfair and unjust vis-à-vis those people who did not have access to such information. It is only in the last 25–30 years that insider trading has come to be seen as a criminal offense.¹⁰

⁹ Insider knowledge was not only used to create wealth, but also to solve problems. For example, during the panic of 1907, John Pierpoint (J.P.) Morgan invited prominent Wall Street bankers into his office when the New York Stock Exchange crashed and did not let anyone leave until a solution was found.

¹⁰ An article prohibiting insider trading was added to the Swiss penal code in 1988.

2.4.2 The Importance of Ethics

In order to address these changing perceptions about ethical behavior and their consequences, it is essential to acknowledge the significance of ethics in our daily lives, particularly as regards leadership. During the last decade or so, ethics has become a hot topic in business literature, primarily in the aftermath of spectacular failures and crises. Authors of leadership books often add a chapter on ethics that reflects on perceived moral failures in an attempt to help explain how these flaws contributed to the various crises that we have experienced since the 1990s. “In a post-Enron world, practitioners have strong incentives to select and develop ethical leadership in their organizations, and researchers want to study ethical leadership in order to understand its origins and outcomes” (Brown & Treviño, 2006, p. 595). For instance, in his book *Leadership: Theory and Practice*, Peter Northouse (a professor at Western Michigan University) includes a chapter covering leadership ethics where he defines ethical leadership as the study of leaders’ behaviors:

In regard to leadership, ethics has to do with what leaders do and who leaders are. It is concerned with the nature of leaders’ behavior[s], and with their virtuousness. . . . The choices leaders make and how they respond in a given circumstance are informed and directed by their ethics. (Northouse, 2012, p. 424)

In spite of this recent, renewed interest in ethics, ethical leadership—both in theory and in practice—still remains a neglected field. It is often only superficially discussed and limited to recommendations about how leaders should behave from an ethical point of view. But given the fact that ethics is universally relevant, as famous leadership author John Maxwell says in making reference to business ethics, ethics should be embedded in all parts of life and not be fragmented:

There’s no such thing as business ethics—there’s only ethics. People try to use one set of ethics for their professional life, another for their spiritual life, and still another at home with their family. That gets them into trouble. Ethics is ethics. If you desire to be ethical, you live it by one standard across the board. (Maxwell, 2003, p. xi)

Another quote that I love, which follows the same logic, comes from great management thinker Peter Drucker who said, “Do not separate

personal values of what is right and wrong from the values you put into practice at work” (Drucker, 2004).

To underline my conviction about the significance of ethics in our daily lives, in the title of this chapter I have chosen to allude to the famous line from Bill Clinton’s successful presidential campaign against George H. W. Bush in 1992. Clinton’s campaign strategist developed the phrase “It’s the economy, stupid” to emphasize the importance of the economy in Clinton’s campaign (a factor that was instrumental to his success). Similarly, I argue that it is ethics that ultimately counts and will determine the success or failure of our Global Era, and for this reason I have made it one of the cornerstones of my proposed framework for inclusive leadership.

2.4.3 What Is Ethics, and How Has It Evolved?

The Encyclopedia Britannica defines ethics (also referred to as “moral philosophy”)¹¹ as the discipline concerned with what is morally good and bad and what is morally right and wrong, and it answers questions such as “How should we live?” (Singer, 2014). In its essence, ethics deals with three fundamental questions, namely:

- What is a good life?
- What is responsible behavior?
- What is just among people?

Our Global Era encourages us to find new answers to these ethical questions in order to help us meet the challenges and take advantage of the new opportunities that we are facing in this ever globalizing world.

The term ethics can be traced back to the Greek philosopher Aristotle who lived and taught in the third century B.C. (150 years after Confucius, one of the most influential Chinese philosophers). The Greek philosophers searched for answers to ethical questions by reflecting on the universe. They believed in a universe (which they referred to as a cosmos) that was populated not only by humans but

¹¹ While being aware of philosophical views that differentiate between the terms ethics and morals, I use these terms interchangeably but prefer to use the term ethics.

also by gods with very human characteristics. In their view, leading a virtuous life was a means to the highest end, which meant happiness for Aristotle and justice for Plato.

An alternative approach to ethics was provided by the tradition of Judaism, which started much earlier in approximately 2,000 B.C. and was followed by the three Abrahamic religions—the Jewish, Christian, and Muslim faiths. According to Judaism, answers to ethical questions were delivered by a divine source rather than by human reasoning, as was the case for the Greek philosophers. As an example, when Moses led the “children of Israel” out of Egypt, he received the Ten Commandments directly from God. The great ethical principles of Christianity were also revealed by divine sources. For example: “Thou shalt love thy neighbor as thyself,” “Whoever shall smite thee on thy right cheek, turn to him the other also,” and finally the famous Golden Rule “Do unto others as you would have others do unto you” all originated from sources such as Jesus’ Sermon on the Mount, as described by Matthew’s Gospel in the New Testament. Consequently, Jesus’ Sermon on the Mount is often referred to as the most powerful expression of Christian ethics (Malik, 2015, p. 52ff.).

How has ethical thinking evolved in the modern era? In order to answer this question we must first consider the great philosophical debate about whether it is *ideas* or *realities* that shape the world and to what extent and how do they influence each other? These deeply philosophical and unresolved questions have been debated for at least two and a half millennia—since Socrates and Plato created Western philosophy. Although I am not qualified—as a leadership practitioner rather than a scholar in philosophy—to contribute meaningfully to this debate, I will discuss aspects of this dichotomy from an ethical perspective, given the importance of ethics in our daily lives. In the past, some big developments that shaped the world in the late nineteenth/early twentieth centuries were much more linked to powerful ideologies based on *ideas* that originated from the Enlightenment and liberalism in the seventeenth century. More recently, however, the forces underlying the multi-dimensional transformations previously described appear to be primarily rooted in changing political, economic, and technological *realities*. Let us therefore now reflect on whether it is ideas (which manifest themselves in ideologies) or realities (which manifest themselves in pragmatism) that can provide

us with new answers to the three basic questions of ethics mentioned above.

2.4.4 Left-Wing Versus Right-Wing Ideologies

In the introduction to Chap. 2, I referred to the prevailing three-tiered world view of my youth. Besides this prevailing world view, I also remember the 1970s as having been deeply ideology-driven. I will use the term ideology (as opposed to idealism) in accordance with Susan Neiman's definition from her book *Moral Clarity*:

Let's define ideology as any comprehensive system of beliefs about the world. . . . This definition is deliberately neutral, without implications that such a system is derived from or reducible to something else. While it is therefore not opposed to idealism, it is very clearly distinct from it. For idealism is not neutral at all: Let's define it, for the moment, as the belief that the world can be improved by means of ideals expressing states of reality that are better than the ones we currently experience. (Neiman, 2009, p. 87)

In the 1970s, two ideologies essentially shaped ethical belief systems. One ideology called for ethics to be individually accounted for and the other for it to be collectively administered. The first ideology was positioned on the right wing of the political spectrum and argued in favor of individual liberty and accountability. In other words, it was up to each individual to search for and to find a good life, to assume responsibility for themselves, and to encourage and contribute to justice among people. Believers in this ideology advocated that the state's role should be limited to that of protecting individual liberty, ensuring law and order, and providing "equality of opportunity."

The second ideology, situated on the left wing of the political spectrum, offered collective answers to the afore-mentioned ethical questions. For proponents of this ideology, the key to a good life—as well as responsible and just behavior—was maximum material equality among people (otherwise known as "equality of outcomes and results"). Believers in this ideology advocated a broad-based and powerful role for the state to redistribute wealth and income in order to come closer to this aspiration. In the early part of the twentieth century, there were many attempts to realize collectivist

ideologies through the practice of fascism and communism, the consequences of which we are all familiar with today. Historians Tony Judt and Timothy Snyder refer to this period as one where “moral values were immanent in history” (Judt and Snyder 2012, p. 289). Otherwise stated, such periods in history may have been more influenced than others (at least initially) by powerful, ethics-driven ideologies.

Sadly, it is particularly those episodes in history that are associated with the greatest humanitarian disasters. Take for instance the Christian crusades in the high Middle Ages, and later the similarly motivated Spanish conquest of Mexico and other Latin American countries in the sixteenth century. Remarkably, already at that time, Spanish historian and missionary Bartolomé de Las Casas had exposed the oppression of native Indians in those countries by their European conquerors and called for the abolition of Indian slavery. In fact, he even succeeded in convincing the king to issue laws based on which Indians would be freed over time. Despite these good intentions, however, the conquest was carried out with a violence that is still somehow felt today in the DNA of many Latin Americans.

Turning to more modern times, once the tremendous human cost of the attempts at realizing collective dreams through communism became broadly known in the 1980s and 1990s, disenchantment with the left-wing ideology followed. In an obvious analogy to the famous line by Hannah Arendt (who introduced the expression “banality of evil” when referring to one of the major organizers of the Holocaust, Adolf Eichmann),¹² the last chapter in Judt & Snyder’s book is entitled “The Banality of Good: Social Democrat.” It captures the conviction of these historians that the period of big collective dreams from the left-wing ideology was succeeded by a pragmatic era of seeking to gradually improve the state of the world by small steps, based on realities rather than ideologies.

¹²Hannah Arendt reported on Adolf Eichmann’s trial for *The New Yorker* and wrote about her experiences in her book *Eichmann in Jerusalem: A Report on the Banality of Evil*. In this book, she uses the phrase “the banality of evil” to refer to Eichmann’s claim that he was simply “doing his job” and to show that his actions during the Holocaust were not motivated by ideology or sociopathic tendencies but rather by an unexceptional stupidity fueled by his desire for professional promotion.

Disenchantment with the right-wing, individual liberty-focused ideology, on the other hand, began much later and for other reasons. While the left wing was historically quite articulate and aspirational in expressing its views about morality, the right wing, in particular the liberal thinkers,¹³ often focused only marginally on ethical aspects. Initially, when Adam Smith founded classical liberal economics in the eighteenth century, he was still very close to and familiar with ethics. In addition to his most famous book *The Wealth of Nations*, he also wrote *The Theory of Moral Sentiments*, in which he outlined his views about ethical questions. But as economics developed away from moral philosophy toward the scientific realm, many of Smith's successors reduced their image of human beings to that of an abstraction, the "homo oeconomicus," who only seeks to maximize his own self-interest. Consequently, they turned their focus toward models, scientific methods, and mathematics and away from the ethical concepts and virtues that underlie economic behavior.

In the footsteps of Smith's classical liberal economic theory, an important and powerful right-wing, intellectual movement called neoliberalism developed throughout the twentieth century. Neoliberalism started in Europe in the 1920s, in reaction to the crumbling power of the authoritarian European states, as a result of World War I. Switzerland became a major center for neoliberalism after World War II when prominent Austrian and German philosophers and economists (i.e., Friedrich August von Hayek, Karl Popper, Wilhelm Röpke, and Walter Eucken) founded the Mont Pelerin Society there in 1947. This organization became the intellectual center for developing and disseminating neoliberal thought until the 1960s, when the center of gravity for neoliberalism moved to Chicago.¹⁴ Today,

¹³ Whenever I refer to "liberal thinkers" or use "liberal" as an adjective in this book, I mean it primarily in the continental European sense (i.e., those who favor individual liberty and a limited scope of interference by the state) rather than the U.S. sense (which often more closely resembles the European Social Democrats who favor "big government").

¹⁴ For an extensive history of neoliberalism and an interesting analysis about the differences between European and U.S.-style neoliberalism, as well as between theoretical concepts and their application in political practice, please see *Masters of the Universe; Hayek, Friedman and the Birth of Neoliberal Politics* (Stedman Jones, 2012). One remarkable difference between the Chicago

neoliberalism is primarily associated with Nobel Prize winner Milton Friedman and his Chicago School of Economics. It is also known for having influenced the thinking of both Margaret Thatcher and Ronald Reagan, two prominent political leaders who were most associated with neoliberal ideas and concepts (e.g., deregulation, the privatization of state enterprises, the protection of property rights, open markets, and free trade).

In recent years, however, the Chicago version of neoliberalism has become a lightning rod for criticism and is perceived as a symbol for the forces that caused the global financial crisis that started in 2007. The two main criticisms of this version of neoliberalism are its approach toward reducing the state through deregulation and privatization and its lack of morality and “warmth” vis-à-vis society. With respect to the first critique, a reduction in state influence may have taken place in the heads of neoliberals as wishful thinking, but never in reality. Hence, the critique is unfounded. Looking at consolidated public expenditure as a percent of nominal GDP, this share went up in all OECD countries from 32 % (average 1970–1973) to 45 % in 2011. Even in the U.S. and the UK, where a neoliberal revolution took place during the times of Thatcherism and Reaganomics, the increase was from 30 to 42 %, respectively from 38 to 49 %, for the same time periods (OECD 2002, 2013).

The second critique against the Chicago version of neoliberalism—its lack of morality—is more difficult to dispel. Although Milton Friedman saw himself as a clear descendent of Adam Smith, he primarily admired Smith’s thinking regarding the market mechanism, not his ethical views. Instead, he chose to adopt the pre-eminent view of Smith’s successors that humans are rational beings who seek to maximize their self-interest. Hence, he does not seem to have been influenced by Smith’s view of a person as a moral being. As Daniel Stedman Jones, author of *Masters of the Universe; Hayek, Friedman and the Birth of Neoliberal Politics*, observes:

version and the Austrian/German version of neoliberalism, which was highly influential in Switzerland as well, was that the latter attributed a stronger role to states in fighting monopolies and cartels and in supporting public sector welfare.

Morality was almost always absent in the writings of Hayek, Friedman. . . . In this sense, as a political philosophy, neoliberal thought was fundamentally based in [*sic*] dry economic processes rather than values. . . . Neoliberal thought began . . . with a reductive reading of Adam Smith's premise of man as a rational, self-interested actor. Human liberty depended on the economic individual, whose freedom in the market place, in the neoliberal views, was commensurate with human freedom more generally. (Stedman Jones, 2012, p. 112f)

Milton Friedman himself stated in one of his eminent books *Capitalism and Freedom* that “. . . in a society, freedom has nothing to say about what an individual does with his freedom; it is not an all-embracing ethic. Indeed, a major aim of the liberal thinker is to leave the ethical problem for the individual to wrestle with” (Friedman, 1962 (reprint 2002), p. 12). To the contrary, I am a liberal thinker who believes that leaders *should* take positions and share their views on ethics and virtues, as stated in one of the four guiding principles of my inclusive leadership framework.

As a consequence of this moral void, critics argue that neoliberal economic policies (more generally referred to as capitalism in the quote below) can promote exploitation, social injustice, and inequality. Take for example this statement by the late English sociologist and political scientist Colin Crouch:

Capitalism has been becoming, not so much ‘evil’, as increasingly amoral. This has happened because globalization and the dominance of the shareholder maximization model both uproot corporations from the social contexts that previously imposed some ethical constraints on their behavior; and because the reach of corporate actions into wider life—their externalities—have reached levels where critical issues of sustainability are raised that cannot be resolved within the normal economic rules. (Crouch, 2012, p. 373)

Another prominent adversary of neoliberalism, Nobel Prize winning economist Joseph Stiglitz, goes even further when he states that neoliberalism creates social inequality instead of producing growth. In his opinion, markets, even when they are stable, often lead to unequal outcomes that are considered unfair. The global financial crisis, for instance, showed that our economic system is inefficient, unstable, and unfair (Stiglitz, 2013, p. xliiif.).

On a more positive note, however, in recent years behavioral economists have started to build bridges between neoliberal economic theory and ethical concepts by taking altruistic behavior into consideration, instead of merely looking at purely selfish behavior. In other words, they have begun reformulating their views about humans by regarding them as *homo reciprocans* (humans who demonstrate altruistic behavior) rather than *homo oeconomicus* (humans who only seek to maximize their own self-interest). In fact, experimental research on altruistic behavior by Ernst Fehr, an economic scholar from the University of Zurich, has shown empirically that economists should take social preferences more into account in order to better understand fundamental economic questions: “A substantial number of people exhibit social preferences, which means they are not solely motivated by material self-interest but also care positively or negatively for the material payoffs of relevant reference agents” (Fehr & Fischbacher, 2002, p. C1).

In spite of these encouraging signs of progress, the right-wing ideology of neoliberalism itself has generally refused to positively address questions of ethics. With regard to the left-wing collective ideologies of the past, a somewhat pointed conclusion is that they have been largely replaced by pragmatism, because their aspirations have either been realized or were proven to be unrealistic. As a result, both of these streams of ideologies currently fail to inspire and guide the search for convincing new answers to the fundamental questions of ethics as a way forward in our Global Era.

2.4.5 Pragmatism Versus the Need for Heroes

Is pragmatism, i.e., the absence of inspiration and guidance through powerful ideologies, good or bad, and can it provide the new answers to the ethical questions that we are seeking? The pragmatism I found immersing myself again into the field of poverty economics has certainly been refreshing and encouraging. When I studied this subject during my university studies in the 1970s, concepts focused on understanding and fighting poverty were seen through highly ideological lenses and often lacked practical applicability. Ideological guidelines were influenced by the Cold War, and they either shaped left-wing colonial exploitation and dependency theories, or they

promoted somewhat naive beliefs about the benefits of free market forces without due consideration of the crucial importance of strong institutions within a country (e.g., the quality of governments and legal court systems).

Recently, however, efforts and initiatives in the field of poverty economics have become more practical, insofar as they now focus on what works and what does not in terms of impact and results, largely irrespective of underlying ideologies. Fighting against an idea as a matter of principle, because of the ideological camp from where it originated, occurs much less frequently than it did 40 years ago. As far back as the early 1960s, Chinese leader Deng Xiaoping defined pragmatism very clearly when he remarked that “the color of the cat does not matter as long as it catches mice.” In line with this view, he set in motion an unparalleled phase of economic developments in China that resulted in the largest scale poverty reduction effort ever undertaken by humanity. Since then, many other pragmatic initiatives have been successfully realized in other countries as well, in both the public sector (e.g., via public policies in Brazil, Bangladesh, and Peru) and the private sector (e.g., via microfinance and the social entrepreneurship movement). In addition to helping countries achieve worthwhile goals (as these examples indicate), another advantage of pragmatism is that it allows for bridge-building between different backgrounds and perspectives, which is in line with the inclusive leadership approach. For example, at elea Foundation for Ethics in Globalization (the entrepreneurial philanthropy institute that I established with my wife in 2006), we regularly engage in bridge-building across private sector, public sector, and civil society organizations, thereby working hand in hand to fight poverty.

Despite such advantages, pragmatism nonetheless may not be a sustainable replacement for the collective ideologies of the past. Take for instance the renewed push toward idealism by Susan Neiman (who considers herself to be a left-wing, liberal thinker) in her book *Moral Clarity*, which was published in 2009. In this book she recognizes people's moral need for ideals and heroes and encourages the left to once again become more idealistic. She goes on to outline an agenda to revitalize the Enlightenment virtues based on the German philosopher Immanuel Kant. In her opinion, heroes are important carriers of ideals (which may turn into new ideologies at some stage).

Along the same lines, it is quite telling that the new Chinese leader Xi Jinping, upon taking office, indicated that the main theme of his era would be to encourage his people to become more idealistic and to elaborate a new Chinese dream. The recent surge of radical Islamic movements, with their ultra-collectivist ideologies, point in a similar direction. Umberto Eco, an Italian intellectual and author, likewise thinks that people have a need to dream up imaginary places and then to believe them to be real. Visions of ideal societies have recurred throughout history, whether Atlantis, El Dorado, or the land of Cockaigne. “. . . it seems that every culture—because the world of everyday reality is often cruel and hard to live in—dreams of a happy land to which men once belonged, and may one day return” (Eco, 2013, p. 149).

I certainly do not believe that new ideologies and collective dreams are the answer to our Global Era’s challenges of broad based anxieties, lack of trust, and disorientation. History has demonstrated time and again that ideologies in combination with political power have led to violence and—in extreme cases—even genocide. But, I am also not convinced that pragmatism should go so far as to prevent a debate about where to seek new answers to the three perennial ethical questions that are required given the effects of accelerated globalization. While certainly not a panacea for all sorts of problems, a new framework for inclusive leadership that is based on the four guiding principles I laid out in Chap. 1 could positively contribute to this debate and could help provide us with the ethical answers we are seeking.

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