





Leadership in Central Banking

by Raed Charafeddine

It is an undeniable fact that in the past few years the world has witnessed, and probably continues to witness a Leadership Crisis at all levels.

Organizational Leadership has jumped into the page of every publication in the world with the rise of more concerns about corporate governance and the role of leaders in bringing about the Financial Crisis and other economic unrest.

In this context, the role played by Central Banks all over that world was looked at as a key contributor to healing the wounds on one side, and to re-launching the wheel of trustworthy financial economy on the other. By being a decent and highly respected regulator, and a prominent organization not to be messed with, Central Banks in many countries created robust credibility and acted as a real source of relief and confidence for the market, something that was and continues to be badly needed amidst the existing global volatility.

One would actually ask, what brought some Central Banks to this position? Why in a global economy that is invaded by lack of transparency and inconceivably costly human decisions did several Central Banks manage to keep a grip, mitigate humongous financial and monetary risks, while imposing the rules of the game on all their stakeholders?

I believe that among many answers that might be given to the above questions, one answer can sum it all. What enabled many Central Banks all over the world to absorb the shock created by the Financial Crisis and its aftermath, was the undisputable Leadership Team who cruised the ship during and after the hard times!

We mean by the Leadership Teams of these Central Banks all members who are directly involved in making and/or influencing the de-

ership in Central Banks any different from Leadership in Private Institutions?

I will tackle this question from a comparative approach in an attempt to answer it, but first, and in as much cliché as it may sound, let us define Leaders and Leadership.

Peter Drucker articulated a definition of both concepts that might engulf most of how we actually perceive them. He says that “an effective leader is one who can make ordinary

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cision starting by Governors and ending by heads of units and supervisors. Somehow the synergy created by those people and their decisions led to shock absorption, timely responsiveness, and prompt actions to initiate the healing process.

To reflect on what we stated at the beginning of this article, this fact reemphasizes the critical role of Leadership in keeping the balance and achieving prosperity. Now with all the intellectual crop about Leadership theories and practices, and the light we shed above on Leadership in Central Banks, the question that imposes itself at this stage is: **Is Lead-**

people do extraordinary things, make common people do uncommon things” and that leadership “is a lifting of a man’s sights to a higher vision, the raising of a man’s standard to a higher performance, the building of a man’s performance beyond its normal limitations”



Perhaps Drucker foresaw the great challenges that were coming across Central Banks’ Leadership and intended to use the term “extraordinary” to reflect the level of response that was required to remedy the consequences of volatility?



Not to oversimplify, but our hypothesis is that leadership in Central Banks is not much different from that of private institutions due to the following reasons:

1

From a Contextual perspective, Central Banks, like all establishments of community, exist and operate within the same environment as all other private institutions. Hence, the leadership of the Bank is subject to the same market dynamics that apply to private businesses. Economic, Political, Social, Technological and Human dynamics are part of the day to day challenges that need to be handled by leadership teams of Central Banks.

2

From a Structural perspective, Central Banks are like all other establishments in the Private Sector. They have an Organizational Chart and Organizational Functions each assuming a specific role and hold the responsibility for delivering results. From a generic point of view, all Central Banks have the same Support Functions like any other organization inclusive of Accounting, HR, IT, Procurement, Administration and others. Still, from a Banking perspective, although Central Banks have some Functions that are specific to this type of Organizations, many of their business line functions do actually match the functions of private sector Banks like Branches', LCs, and Forex Departments.

3

From a Role perspective, Central Banks are significantly different from Private Sector banks in being the regulator and leader of the Countries' Monetary and Financial Stability Policies, and the enforcer of specific compliance and management rules that all banks operating in their Country are to abide by.

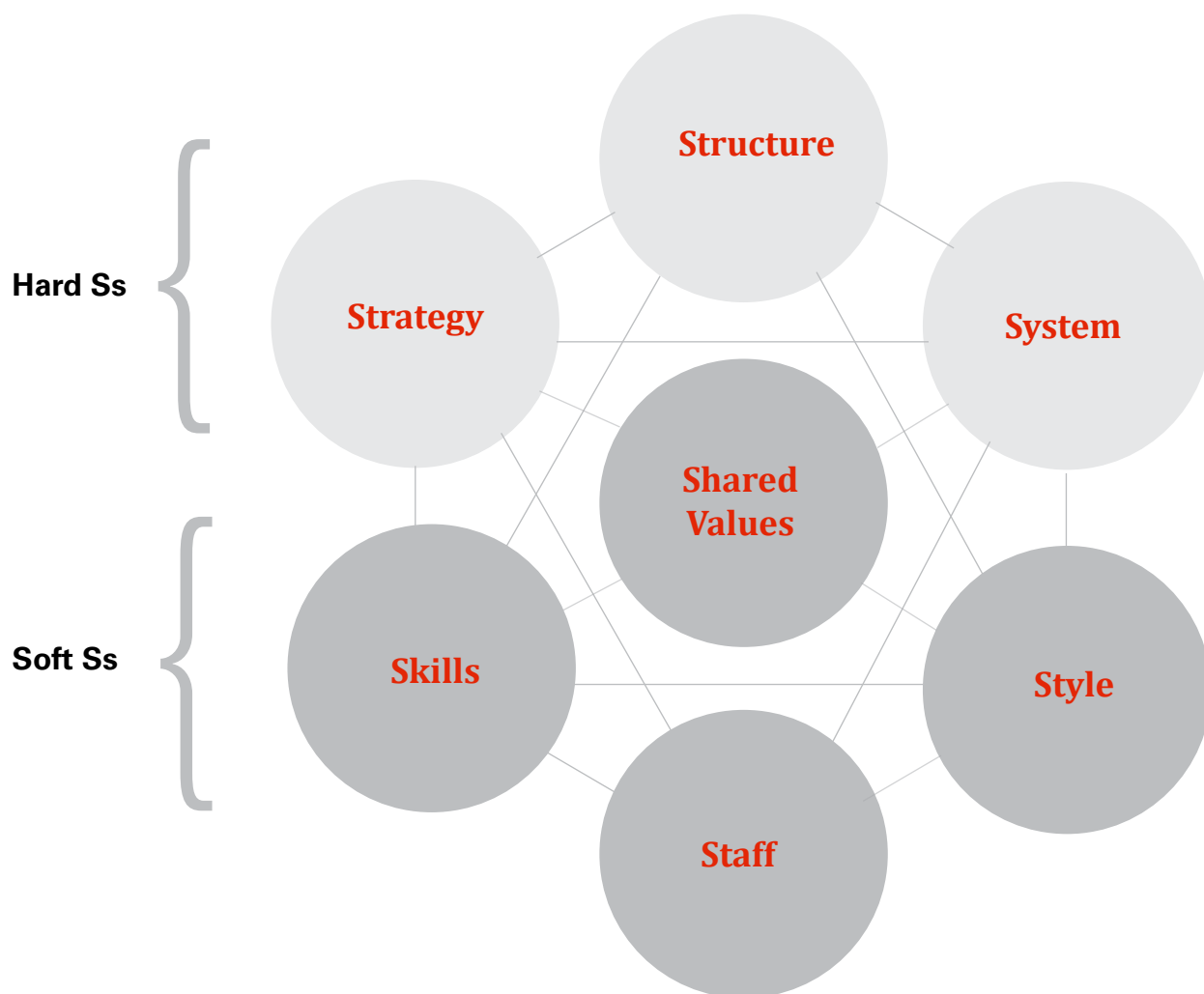
With the above clarification in mind, it is obvious that, except for the Role difference – and alternatively the huge scope of responsibility and decisions' impact on National policy –, Central Banks are not organizationally much

different from other institutions. This conclusion, in turn, conveys that Leadership in Central Banks is not any different from Leadership in other organizations.

To verify the above conclusion, we looked at two dimensions that determine the nature of required Leadership. These are the Leader's Role and the Leadership Competencies.

For this, we refer to major highly recognized benchmarks, namely McKinsey's 7S Model and the adopted Leadership Competencies of The European Central Bank.

The 7S McKinsey model



McKinsey's 7S Model iterates the areas that need to be catered for in leading any business and which implicitly summarizes the roles of every leader.



Each of the model's seven constituents translates into a role that Leaders in any organization need to play. These constituents are:

1. **Shared Values** (Shared Super Ordinate Goals): one of the Leaders' main roles is to bring the team around a common set of Values that every member associates with, believes in, and behaves according to their directives. Leaders in Central Banks can establish a high level of Shared Values around the mission of the Central Bank and its role in mitigating risks for the Nation and sustaining its economic prosperity.

2. **Strategy**: Like any Leader in private institutions, Leaders in Central Banks are expected to envision and develop strategies that enable them to realize their goals regardless of the organizational function they oversee.

3. **Structure**: since no strategy can be executed without a clear distribution of roles and responsibilities, Leaders in Central Banks are also expected to align their practice with the overall organizational structure and ensure that this structure is under continuous scrutiny to make it more efficient, practical and productive.

4. **Systems**: similar to the Structure dimension, Systems stand for the arteries and veins of any establishment. Central Banks' Leaders are expected, as well, to design, develop and implement strategic and functional systems to ensure consistency of practice and hence sustainable efficiency.

5. **Staff**: nothing can happen in any organization without people, even if you are a Central Bank! As per the previous definition by Drucker, Leaders can only achieve targets through people. Attracting, building, managing, mobilizing a highly performing team is not only a role for leaders in Central Banks and all organizations, in fact it is an integral part of their Leadership Legacy.

6. **Skills**: Skills are the soft tools and essential equipment that teams utilize for realizing goals. Leaders in Central Bank, as well, need to be keen on identifying the required skills for their functions and accordingly infiltrate and develop a team that masters these skills and delivers results that match this level of mastery.

7. **Style**: Leadership is a comprehensive package. One cannot be a master Leader if any of the above dimensions are not played properly and to the utmost levels of professionalism. Many believe that Leadership is an attitude! And Central Banks represent a ripe ground for 'Attitude' with all the exposure and show off space that one can make use of. However, what we mean by attitude and style, in fact, points to charisma rather than arrogance, closeness rather than detachment, involvement rather than differentiation, originality rather than rigid protocol. All these reflect the real role of a Leader in a Central Bank that counts on an extensive level of self awareness, objectivity, and openness for further, rather, continuous self development.

The second dimension in verifying our hypothesis is the dimension of Leadership Competencies. By definition, Competencies stand for Knowledge, Skills and Behaviors that are imperative for executing job responsibilities effectively. Awareness about the relevance between high performance and the presence of required competencies is significantly on the rise. This is pretty much reflected in the growing interest of Human Resources Functions in organizations inclusive of those of Central Banks in adopting a Competency-based HR Management model. This model tackles all people management systems and processes from a Competencies perspective, including Leadership related practices like Managerial Development, Succession Planning and other Leadership attraction and development activities.

With this in mind, Competencies-aware organizations started seeking to identify their Leadership competencies, those that need to exist in current and newly hired leaders. Interesting enough, this awareness was not only exclusive to private sector institutions rather it represented a core part of Central Banks' HR management practices. This fact was clearly demonstrated in the example we present from the European Central Bank.

Reflecting on the below competencies (Table A, p.19), and regardless if one is aware of the

Competencies-based model, it is clear that leadership competencies in a Central Bank mostly – if not completely – match those of other organizations. Leaders in all organizations need to be competent in strategizing, planning, team management and performance monitoring. They are expected to be masters of communication, motivation and people mobilization, and by far they should be initiative takers and extremely organized professionals.

In conclusion, Leadership in Central Banks is not different from Leadership in other organizations. What it takes to be a Leader in any organization is, by far, a personal trait and behavior that are existent in the person of the Leader. The organization, in this respect, and regardless of its nature, sector, size, and nationality, represents the arena where leaders should demonstrate their said Leadership capabilities.

Finally, and not to overstate, Leadership remains a universal concept, though the way Leadership is practiced is anything but universal! Wherever we dig we realize that what Leaders do or are expected to do is the same. and so, the lesson to be learned is how can we "Universalize" the practice of real Leader-



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21st Century Leaders Competencies

Table A

INFORMATION ORIENTED COMPETENCIES	TASK ORIENTED COMPETENCIES	PEOPLE MANAGEMENT COMPETENCIES	INTERNATIONAL COMPETENCIES	PERSONAL COMPETENCIES
Strategic Thinking	Building the Organization	Providing Leadership	Influencing People	Breadth of Awareness
Business Understanding	Steering	Directing Items	Relationship Building	Achieving Objectives
Conceptualizing	Organizing	Building Items	Advising	Self Awarenesss
Innovating	Deciding	Coaching / Developing	Team Orientation	Taking Initiative
Integrating	Problem Solving	Motivating	Service Orientation	Showing Drive
Analysing	Structuring Work	Guiding People	Cultural Awarenesss	Showing Commitment
Processing	Performing Tasks	Providing Support	Communicating	Adaptability
Comprehending		Transferring Knowledge	Openness	