The H Factor: A Behavioral Explanation of Leadership Failures in the 2007-2009 Financial System Meltdown

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To date, several technical analyses offer causality for the 2007-2009 "Great Recession." This work offers a different perspective by applying behavioral analysis of the actions taken by the relatively small number of leaders in the middle of the maelstrom. Using a behavioral construct called the "H Factor," the researchers examined how a sample of key players scored on the negative traits of hubris, hypocrisy, and hostility; and on the positive traits of honor, humility, and honesty. The researchers posit that those choosing leaders for key positions could benefit by evaluating candidates through a prism of an H Factor-based analysis.

INTRODUCTION

No one living anywhere in the modern world in 2007-2009 could be unaware of the dramatic, and seemingly-sudden, disintegration of the financial and economic system in the United States. In this period, now referred to as "The Great Recession," several iconic businesses and financial houses went bankrupt while others lost most of their market capitalization. As a by-product of these seismic shifts, jobs have been lost by the millions; unemployment has soared; personal wealth has been decimated as homes lost significant value and 401K's and other retirement and investment vehicles lost half or more of their value. The hopes and dreams of countless individuals and families have been altered, perhaps irretrievably, as job losses altered career aspirations and financial losses changed the trajectories of plans for retirements; children's educations; home purchases; small business expansions; and other daily, but significant decisions.

The nature of the crisis is captured in part of a "Letter to Shareholders" of JP Morgan Chase & Co, sent to them by company Chairman and CEO, Jamie Dimon, one of a few financial executives to have avoided some of the mire during the disintegration. Dimon wrote about "The gathering Storm (that) arrived with a vengeance…"

> "In 2008, Bear Sterns collapsed; Lehman Brothers declared bankruptcy; Fannie Mae and Freddie Mac were placed into government conservatorship; the government assumed ownership of AIG; Merrill Lynch sold itself to Bank of America; Wells Fargo took over a struggling Wachovia; IndyMac and WaMu went into receivership by the Federal Deposit Insurance Corporation; Countrywide and the U.S. Mortgage business virtually collapsed;

> the two remaining major investment banks, Goldman Sachs and Morgan Stanley, became bank holding companies; around the globe, French, British, Swiss and German banks were rescued by their governments; and the world entered the sharpest, most globalized downturn since the Great Depression." (Dimon, 2009).

When a nation experiences a calamity like the "The Great Recession" scholars, practitioners, and others will dissect the event to 1) find out what happened, 2) explain why things happened as they did, and 3) to recommend changes that may assure that the problems will not be repeated in the future. There is a growing body of literature contributing to these three objectives. The aim of this paper is to provide a different point of view that will add to or complement the work that has already been done.

WHAT HAPPENED?

There is no shortage of explanations offered about the cause of the financial crisis:

- Imprudent Mortgage Lending - Murphy (2008) suggests low interest rates and relaxed lending standards motivated people to purchase houses they could not afford.
- Bursting of the Housing Bubble - When unsustainable prices began to fall, borrowers and lenders were faced with financially infeasible choices: continue paying (or supporting) a loan far in excess of the value of the asset, or walk away from the asset to cut the losses (LaBonte, 2007).
- Mark-to-Market Accounting – Fair value accounting standards require an asset to be valued at the current market price. In 2007 and 2008 as the market value of mortgages began to drop, financial institutions began to recognize substantial losses on their balance sheets. These losses, in turn, further eroded market confidence and intensified systemic problems in the banking industry (Gross, 2008).
- Community Reinvestment Act (CRA) – If one were strictly looking at dates of actions that may have influenced the financial crisis, the Community Reinvestment Act would probably be the oldest. Enacted in 1977 and further amended during the Clinton and Bush presidencies, the noble intent of the CRA was to make housing affordable to as many people as possible. Unfortunately, many of the clauses, including "no money down" and virtual elimination of credit histories, combined with Freddie Mac and Fannie Mae's politically mandated affordable housing goals, led to high risk lending practices with the predictable consequences (White, 2008; Carney, 2009).
- Greed - Columnist, David Brooks was among the first to see the…"fiasco as a product of greed." He also attributed "stupidity" as the other root cause. (Brooks, 2009). Lo (2009) addressed the issue more academically stating, "Financial crises are unavoidable when hardwired human behavior – fear and greed, or 'animal spirits' – is combined with free enterprise, and cannot be legislated or regulated away." Morgenson and Rosner (2011) eviscerate several people who were major players during the financial crisis and attribute their behaviors and actions directly to greed and over ambition. We will argue later that those who cross the line between ambition into greed have a behavioral flaw, which promotes that tendency.
- The government treatise - "The Financial Crisis—Inquiry Report" (January, 2011) summarizes the causes the "Great Recession" as the interaction of several events: the collapse of the housing bubble fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages.

Historians are still debating what caused the Great Depression, so it is not likely that the identification of a singular cause or a set of interactive occurrences will settle arguments about the causes of the Great Recession anytime in the near future. The authors of this paper acknowledge that each of these areas and perhaps several more as described by Jickling (2009), Weisberg (2010), or Becker (2011) contributed in some degree to the collapse of the financial system and the resultant decline in the nation's economy, but this paper offers an added perspective. None of the above reasons just happened--behind each reason is a decision, or decisions, made by an individual or individuals. As stated in *The Financial Crisis—Inquiry Report* (2011), "The crisis was the result of human action and inaction…ignored warnings and fail(ure) to question, understand, and manage evolving risks within a system essential to the well-being of the American public." Those involved were in every case in positions of power. Therefore, we suggest that the current problems with the financial system and our economy have many of their roots in an area not discussed in the literature: leadership, or more precisely the failures of leadership in a number of different, but highly inter-related spheres**.** We will attempt to explain WHY things happened through a lens of leadership we call the "H-Factor," but first a defense of the theoretical basis for our work and an explanation of the research methodology.

LEADER BEHAVIOR AND LEADER TRAITS

With all the pedigreed educational backgrounds and with all of the experiences major players in the financial crisis had, the most salient question is, "How could so many of them go so wrong in leading and making decisions concerning their organizations?" This is the proverbial "Sixty-four dollar question" or, perhaps in the current environment, that should be re-cast as the proverbial "Six point four trillion dollar question," since that is the amount of added debt our country has taken on, in part, to attempt to solve the financial crisis. A potential answer to this question may be found through an examination of personality and behavioral characteristics of a representative number of these players. We suggest that it is not the <u>objective</u> qualities of the key players but, instead, it is <u>behavioral or subjective</u> characteristics about or within these individuals that can explain what has gone wrong.

"Personality predicts leadership—who we are is how we lead—and this information can be used to select future leaders or improve the performance of current incumbents (Hogan, 2004)." Personality and traits as a modifier or explainer of leadership has had an up, down, and back up presence in the literature. In its most recent resurgence, researchers have explored the impact of charismatic leadership (House & Howell, 1992), Emotional Intelligence (Goleman, 1998), and implicit leadership theories (Lord & Maher, 1991) on leader effectiveness and decision making. These approaches recognize personality as a combination of traits that affect behavior and help predict the decisions a leader will make.

One strength of personality and observable personal behaviors as an explanatory variable of leaders behavior is the degree to which observers' judgments agree. When making judgments about a person's social reputation through public information that can be easily verified, there is high level of agreement when describing behavioral patterns (Curphy, 1998; Hogan, 1992; and Nilsen, 1995). It is these behavioral patterns that we assess and use to draw conclusions about individuals involved in the financial crisis.

RESEARCH METHODOLOGY

Through publically available information in popular and business press, board reports, and interviews of key players associated with some of the businesses and GSEs, most of whom required anonymity for an interview, we identified one or more observable traits that we believe influenced their decision making. The aim in gathering and analyzing the information was to examine the personality and behavioral patterns of these people for predictive value. Clearly, administering personality tests to these key players would have been preferable to the qualitative approach taken; however, this was neither practical nor possible.

Our research approach is not unique. Examination of popular press and public documents as a research methodology has been used by others. Hayward and Hambrick (1997) and Malmendier and Tate (2003) used annual reports and press releases as methods to assess "core self evaluation" of CEOs. Amernic and Craig (2006) found public pronouncements to be a useful way to examine leaders' reputations or personalities. Our approach mimics those studies.

WHY THINGS HAPPENED: A BEHAVIORAL EXPLANATION THROUGH THE H FACTOR

The "H Factor" is a behavioral construct inspired from an examination of characteristics of key players in the Great Recession. Coincidently, the qualities and characteristics identified all involved words that begin with the letter H. Public documents evinced the presence or absence of hubris, hypocrisy, hostility, honor, humility, and honesty; thus, the H Factor is a form of rating about leadership quality. Long ago, McGregor (1960) created the original short-hand description of leadership profiles by applying his "Theory X" and "Theory Y" construct to them. The H Factor is offered in the same spirit as yet another way of trying to explain the behavior of leaders.

Hubris

J. Rufus Fears defined hubris as, "Outrageous arrogance that inflicts suffering upon the innocent (Fears, 2005)." Collins in his recent book, *How the Mighty Fall* (2009), identifies hubris as the first stage of the decline of an organization. The stage is characterized by leader arrogance, belief that success is an entitlement, and blindness to the important factors that made the organization successful and great to begin with (Collins, 2009).

Confident leaders generally achieve more than their timid counterparts (Bass, 1990). But, an excess of confidence can lead to excessive risk-taking, grandiose initiatives, intimidation, and an altering of the moral compass (Hayward and Hambrick, 1997; Van Velsor and Leslie, 1995). In a recent study examining the effect of power, researchers found that the more power an executive had, the less likely they were to take advice (See, et al, 2011).

Hubris may be the source of illogical decisions which may lead to corporate or government policy mistakes, which in turn can harm a company's employees or a government's citizens. Hubris blocks informational input and causes decision makers to act on their excessive pride, fail to get the right help, fail to evaluate the reality of a of a business or government action, and fail to face the consequences of a mistaken policy or action (Hayward, 2007).

Examples of leadership hubris that came to light in the current crisis are nearly endless. John Thain, the ousted CEO of Merrill Lynch, thought nothing of spending $1.2 million, in the midst of the financial meltdown, on remodeling his personal office. Thain's problems and image became more problematical when he approved an early payment of bonuses to Merrill executives before Merrill was forced to merge into Bank of America. The latter action created the impression that Thain was trying to sneak something through before the merger that he knew would not be approved after the merger. The fact that Thain had no clue about how his action would be perceived speaks volumes about the level of hubris that surrounded him, and his inability to recognize the consequences of his actions taken on behalf of the company.

James Cayne, the CEO of the then deeply-troubled Bear Stearns left his office by helicopter for long golf weekends and was regularly out of town at bridge tournaments (Gibbs, 2009). Mr. Cayne was completely out of the picture in what the *Wall Street Journal's* Kate Kelly (2008) described as "The last 72 hours of Bear Stearns." It was senior executive, Alan Schwartz, that cobbled the deal with J.P. Morgan Chase CEO, Jamie Dimon, that merged Bear Stearns into J.P. Morgan Chase. (Kelly, 2009). Mr. Cayne's hubris prevented him from evaluating the reality of his business's problem as he left others to deal with issues while he indulged his own ego.

At AIG, executives continued to spend lavishly as if the company wasn't in any kind of trouble at all even though they had just accepted a large bailout package from the federal government. No effort was made to cut significant spending on conferences for staff and customers that were offered at swank resorts. When the spending plans became public and taxpayers became outraged, AIG CEO, Edward Liddy, asserted that the expenditures to vital to the sustainability of the firm. To him, it was essential that the morale of those who produced business for the firm should be maintained. He was probably right, but defending that position in the glare of the lights of a TV camera became impossible to do. Mr. Liddy's hubris failed to accurately assess the consequences of his policy of excessively rewarding employees.

Posner takes former President George W. Bush to task for exhibiting a non-monetary facet of hubris when he wrote: "The lame duck President seemed uninterested in and uninformed about economic matters and was unable to project an image of leadership and, instead, spent his final months in office in frequent trips abroad and in legacy-polishing while the domestic economy melted away." (Posner, 2009)

In each of the above examples, leader hubris either induced an unachievable grandiose plan or prevented the leader from seeing the consequences of their actions. Had hubris not been a dominate personality characteristic, Mr. Thain might not have approved investment in high risk collateralized debt obligations, Mr. Cayne might have recognized the perilous position of his company before it arrived at the edge of the precipice, Mr. Liddy would not have perpetuated the culture of ignoring downside risk as they did with their credit default swaps products which were far more risky than traditional insurance products, or Mr. Bush would have instituted more aggressive economic policies earlier that may have mitigated the depth of the crisis. Regardless of one's belief about which one or combination of decisions led to the financial crisis, individual decisions contributing to the crisis were initiated by an individual whose decision making ability was impaired by hubris.

Hypocrisy

Hypocrisy exists when there is a conflict between organizational values and leader behavior. Hypocrisy is exhibited when one professes beliefs, feelings, or virtues that they do not hold or possess. For leaders this means holding others accountable for one set of criteria and standards while holding themselves accountable to another. They often invoke values or higher ideals, e. g. "We value people," "We support equity and openness," etc. as part of their compelling vision for an organization (Boal & Bryson, 1988; Conger & Kanungo, 1998), but when employees see behaviors from leaders incongruent with the corporate values, they attribute it to hypocrisy. Cha and Edmondson (2006), one of the few empirical studies done on hypocrisy, developed a theoretical model showing how hypocrisy by the leader produces disenchantment within the organization. This disenchantment can lead to organizational poor performance, suboptimal decisions, because it creates a culture where decision makers do not believe they are accountable.

Brunsson (2002) describes hypocrisy as "…any practices or policies not based in reality." Under that description hypocrisy was present in a wide spectrum of actions leading up to the Great Recession. Loan officers that assured borrowers that there was nothing unusual about how their applications would be handled and that they were people who should expect to perform at expected levels when it came to their role as borrowers. Yet, the loan officers knew differently. Bankers bundled mortgages and passed them on as investment opportunities claiming that they posed no more than normal levels of risk. Yet, the bundlers knew differently. Barney Frank and Christ Dodd assured Congress that there was nothing wrong with Fannie Mae or Freddie Mac as they imposed larger investments in sub-prime mortgages; and who asserted that those with congressional oversight for those agencies really "had the taxpayers' backs." Yet, they knew better.

Posner (2009) provides an example of hypocrisy from former Federal Reserve Board Chairman, Alan Greenspan's support of policies that were contributory to the economic downturn. Greenspan was aware that propping up stock prices by keeping interest rates low would fuel borrowing, which could lead to a destabilized financial system, even though the Fed's mission contains the phrase, "…maintaining stability of the financial system and containing systematic risk that may arise in financial markets..." (Board of Governors of the Federal Reserve, 2009). That boom created the demand for sub-prime mortgages, reckless securitization, and credit default swaps sold by American International Group. Under these circumstances, there was no stupidity because "…everyone knew what exactly what they were doing. The home buyers knew that they were borrowing too much. The lenders knew that they were getting people in over their heads, and the Wall Street financiers knew that the bonds collected from dubious mortgages were not really safe" (Posner, 2009).

Commercial rating agencies, such as Moody's Investors Service and Standard & Poors, evaluate and rate investment instruments and vehicles. The function of these agencies is to engage in due diligence and to offer guidance to investors about the quality of investment opportunities. Investors rely almost exclusively on ratings to guide securities valuation (Moyer, 2005). Rating agencies; however, make most of their money by issuing credit ratings for debt securities paid for by the company raising the debt, and therein lies the problem. While investors may be the users of rating agency information, the companies being rated pay for the service. Just a few months prior to their economic collapse, Freddie Mac, Fannie Mae, Bear Sterns, and Lehman Brother's all received investment grade ratings. Moody's mortgage security model did not include information about a borrower's debt-to-income ratio, a ratio they knew had a high predictive value with respect to a borrower's ability to repay (Morgenson, 2011). It was only after each of these organizations began seeking corporate life saving funds that they were downgraded by two or three levels.

Hostility

Hostility refers to a set of negative attitudes, beliefs, and appraisals of the worth, intent, and motives of others and often includes a desire to preemptively harm or see harm inflicted on others (Smith, 1992, 1994). The motivational aspect of anger impacts an individual's judgment by motivating them to make decisions that will try and change the situation, remove the problematic components, and re-establish the situation that existed prior to the offense (Lerner & Tiedens, 2006).

James Johnson, former CEO of Fannie Mae, according to a former government official who worked with him, was "…the designer of cultural obstinance….Take on your regulator, go to the hill, use your muscle." (Morgenson, 2011). Fannie Mae's executive compensation plan prior to Mr. Johnson's arrival, was based on a wide range of metrics including cost control and return on assets. Mr. Johnson created an executive pay plan based entirely on earnings growth, which predictably led to poor decisions about loan risk (Morgenson, 2011). His hostility with regulators and Congressional Committees was driven by his need to remove the problems he perceived regulators were causing in his growth plans for Fannie Mae—he needed to protect that system, the status quo. Taking such an aggressive stance with regulators probably delayed their eventual findings that Fannie Mae was using questionable accounting practices and was teetering on the edge of bankruptcy.

As the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Connecticut's former Senator, Christopher Dodd had a large influence on banking regulations and its business environment. His position placed him in contact with many banking executives, one of which gave him a mortgage loan with much more favorable rates than typically offered to customers (Countrywide's Many Friends, 2008). When asked about favorable treatment he may have received on personal mortgages he received from the failed Countrywide Mortgage, he consistently refused to provide documents that would affirm his innocence. (Chris Dodd's Irish Cottage, *2009).* His hostile reaction to the inquiry and refusal to accept responsibility for his actions eventually led to his decision not to seek re-election, but more importantly his hostility altered his judgment about the riskiness of decisions he was making and regulations he was proposing.

Emotions, especially anger and the hostility that accompanies it, can cause individuals to increase their commitment to a failing plan (Tsai & Young, 2009). Both Johnson and Dodd exemplified this characteristic when they clung to positions to which they had emotionally committed. Their hostility prevented them from seeing the risk associated with their decisions.

Honor

Thus far, all of the components of the H Factor discussed have been demonstrated to have negative impact on leadership and decision making. We now turn our attention to positive components of the H Factor. Honor is principled uprightness of character—personal integrity. It involves demonstrating respect for the values of others, organizations, individuals, social or community conventions, and a consistency of actions necessary to personify that respect. Honor is almost the opposite of hypocrisy.

Honor is typically codified by cannons of the profession or codes of ethical behavior. Lawyers in every state promise to abide by the Rules of Professional Conduct of the state in which they practice and can face disbarment if they do not. Public accountants are guided by the American Institute of Certified Public Accountants' Code of Professional Conduct and Generally Accepted Accounting Principles

(GAAP). Registered investment advisors must adhere to the Securities and Exchange Commission's "Investment Advisor Codes of Ethics."

Most businesses have written, and often posted, statements of values and standards of work behavior. Honor impacts the decision process by instilling a positive atmosphere of consistent ethical behavior rather than an unwanted constraint imposed by laws or societal norms. Consistent honorable behavior shapes the opportunities faced by the organizations and the alternatives they are willing to consider in all decision-making processes.

It would be foolish to suggest lapses in honor caused the Great Recession, but some of the actions were so egregious, they certainly contributed to the uncertainty surrounding the event. Lawyer Mark Dreier pled guilty to conspiracy, securities fraud, money laundering, and five counts of wire fraud in a scheme to sell $700 million in fictitious promissory note (Bray, 2009). Clearly Drier's actions were well outside of the bounds of the law and of the oath that lawyers take when they are admitted to the bar. By many accounts, David Friehling a principal in the CPA firm, Friehling & Horowitz, that long audited Bernard Madoff Investment Securities, is the "nicest of guys (Abkowitz, 2008)." However, Mr. Friehling currently awaits sentencing for failure to abide by the AICPA Code of Ethics by not conducting appropriate audits of Mr. Madoff's business. His lack of honor has placed other major accounting firms in jeopardy because as auditors of the feeder funds, they relied on the accuracy of Mr. Friehling's audit statements.

The law profession, the accounting profession, and the financial investment profession all have codes of ethics to guide professional behavior. It is up to individual firms to assure adherence to these guides through consistent honorable actions. Failure to show honor to their professions led to disastrous consequences in the above examples. But did honorable behavior contribute to the avoidance of the financial maelstrom. We can think of one excellent example.

BB&T is the 10th largest bank in the country. It ranks no worse than 7th in market share in deposits in all markets it serves. Like virtually all financial institutions, it has a code of ethics, but unlike most financial institutions, BB&T also has a set of ten core values that drives all of its decisions. John Allison, former Chairman and Chief Executive Officer led BB&T through honor and consistency by recognizing the "fast growth" models of sub-prime lending did not fit with BB&T's core values. He honored the values set by the original founders of the bank and carefully protected its assets by avoiding higher return, but much riskier bank investment strategies. Mr. Allison even met with Congress over a period of seven or eight years trying to warn them about the impending financial collapse of Freddie Mac and Fannie Mae. He readily acknowledged the nobility of making housing affordable to a wide number of people, but was equally adamant about the unsustainability of the endeavor as it was being carried out. Had Congressional leaders listened to Mr. Allison and other members of the Financial Roundtable, had Congressional leaders been honorable and consistent in their fiduciary responsibilities with respect to Freddie and Fannie, perhaps the financial crisis would have been averted (Discussion with executive in the Federal Housing Finance Agency 09/22/2011 who wishes to remain anonymous).

Humility

There are many leaders who think leading is about taking charge, having authority or being in a position to tell others what to do or to win influence over others because of self accomplishment. That is not leadership, it is power, and they are two very different things. Humility is the <u>opposite</u> of hubris. "Humility is a human virtue that reflects a relatively stable character trait (Vera & Rodriguez-Lopez, 2004). Collins (2001) determined that consistently high performing organizations were led by "Level 5" leaders who had a blend of personal will and humility. He further found these organizations were often the benchmark performer in the industry; continued to exhibit superior performance long after a humble leader retired; and that they did not have embarrassments such as mistresses, theft for personal gain, or financial misappropriations (Collins, 2001).

Humility impacts leadership in three ways: 1) It influences the leaders to act in ways that are other-enhancing rather than self-enhancing; 2) It shields the leaders from craving the spotlight, even to shun attention; and 3) It enhances organizational learning and organizational resilience, which in turn impacts organizational performance (Morris, et. al., 2005). A leader who is humble listens to and carefully considers the views of others, is concerned about the work of the team more than of his or her individual work, and is prepared to offer praise and support for others who contribute to organizational success. In the financial area, billionaire, Warren Buffett, is well-regarded personally and seems to exemplify an individual who possesses a good dose of humility. He doesn't show off with flashy cars and intimidating mansions. Buffet lives in the same small 3-bedroom house in mid-town Omaha, which he bought after he got married 50 years ago, and his annual salary of $100,000 is infinitesimal compared to remuneration of other CEOs in similar companies. His advice to young people should have been heeded by many in the financial crisis: "Stay away from credit cards and invest in yourself and Remember: Money doesn't create man but it is the man who created money; live your life as simple as you are; don't do what others say, just listen to them, but do what you feel is good; don't go on brand name; just wear those things in which you feel is comfortable; don't waste your money on unnecessary things, just spend on what you really need. After all it's your life then why give chance to others to rule your life." (Couch, 2011)

Robert Merton, the Nobel Prize-winning Harvard economist, touched upon "humility" in remarks he made in a recent lecture that aimed to explain why the nation's financial system melted down. Mr. Merton described how the risks associated with innovative financial products were, serially, underestimated. In essence, the leaders didn't really understand the dangers of the financial products with which there were working, and that they put too much faith in models. He suggests a more humble approach to working with innovative financial products might have been in orders. "The measure of innovators is not in the mistakes they make, but in the lessons they learn. We now know that our complete markets need better models, which should include more humility (emphasis added), acknowledging that some risks are still too uncertain to measure and should be avoided" (Crovitz, 2009).

An executive from an industry unconnected to the causes of the great Recession, but who exhibits the important role humility plays in leadership is Patricia Woertz, Chairman, CEO, and President of Archer Daniels Midland (ADM), a giant food processing company also on the leading edge of ethanol production and research. Ms. Woertz is the first non-family member, first outsider, and first female to lead ADM. On her first day a skeptical VP asked her "Well, what do you bring us?" Rather than bristling, she viewed the question as an honest one and responded that during her first 100 days she wanted listen, learn, and build trust (Birger, 2006). Woertz sums up her approach to leadership with four words: Be, Know, Do, Care. "'Be' is about being yourself, leading from your values. There is no substitute for leading from your core values. 'Know' is to know your people and what motivates them. Know your job, your competition. 'Do' is be biased towards action. Do it—take those chances and risks. 'Care' about people. When people know you truly care about them, all change and success comes." Under Woertz's leadership, ADM has posted record financial result and broadened its business lines. Those results, in the opinion of many executives at ADM, can be traced to her willingness to include others in decision processes and not have the need to appear as the smartest person in the room (Birger, 2006).

Honesty

Followers follow character and character begins with honesty and integrity (Kouzes and Posner, 1993). Honesty is the most admired quality of leaders and always been a bed rock principle sought for all workers not just leaders. Clawson (1999) places the foundation of effective leadership on the moral grounds of truth telling, promise keeping, fairness, and the respect for the individual. Honesty is a virtue one achieves or rejects through overt decisions.

It is rational to assume that leaders in any type of endeavor can make "honest mistakes," or simply bad business or bad government policy decisions. It is equally rational to assume that if a leader makes too many of these types of transgressions, then they are unfit for leadership role and should be dismissed by their boss, by their board of directors, by their customers or, in the case of elected officials, by the voters. Unfortunately, many of the key players of the Great Recession went far beyond making costly business or policy mistakes. Many lost their moral and ethical compass. Bernard Madoff (Bernard L. Madoff Investment Securities, LLC), Allen Stanford (Stanford Financial Group), the late Danny Pang (Private Equity Management Group), have been adjudged by juries of being simply dishonest individuals who willingly engaged in dishonest and/or criminal behavior. For these folks, honesty wasn't even on their radar screen.

Ken Lewis, who had been the well-respected Chairman and CEO of Bank of America until his performance was called into question and was deposed as Board Chairman in an April 2009 shareholders' meeting, has subsequently had his honesty questioned on at least two counts. Questions about him rose over his behavior at the time Merrill Lynch was being forced into a merger with Bank of America. This forced merger was just prior to a point when Merrill would have had to file for bankruptcy. It became clear that Lewis had misgivings about the merits of a merger of Merrill into Bank of America, but didn't share those misgivings with his own board and with shareholders. At the April shareholders meeting, Lewis was accused of violating Bank of America's own code of ethics by not expressing his views. New York State's then Attorney General, Andrew Cuomo, got Lewis to admit that he caved into threats of reprisal by former Secretary of the Treasury, Hank Paulsen, and Federal Reserve Board Chair, Ben Bernanke if he squelched the Merrill deal.

John C. Bogle, the founder and former CEO of the Vanguard Group of Mutual funds, commented upon the apparent decline in honest business dealing in an Op-Ed piece he wrote for the Wall Street Journal (2011). In that piece, he wrote that he:

"…placed heavy responsibility for the meltdown on a broad deterioration of ethical standards….self-interest got out of hand…and unchecked market forces overwhelmed traditional standards of profession conduct develop over centuries. The result is a shift from moral absolutism to more relativism. We've moved from a society in which 'there are some things that one simply does not do' to one in which 'if everyone else is going it, I can too." Business ethics and professional standards were lost in the shuffle.

Honesty is very easy to discuss when it is not present, but more difficult to find examples when it is. The expectation of honesty is so pervasive that it does not create positive news or public comment; therefore, providing an example of an honest leader who participated in the events of the great Recession is not possible, not because they do not exist, but rather because there is no public reporting of them.

RECOMMENDED CHANGES THAT MAY MITIGATE FUTURE LEADERSHIP PROBLEMS

If one accepts the assertion that leadership played a significant role in the decisions that led to the crisis, then one must follow Dimon's advice and offer ideas that may mitigate the problems in the future. Boards of directors, potential business partners, investors, shareholders, voters, and others could benefit by knowing the H Factor profile of an individual with whom they will be involved in business or other transactions. Because many of those who contributed to the decisions leading to the 2007-2009 financial system melt-down were elected and appointed officials in the government, it is just as important to know the H Factor profile of those individuals. Since traits and behaviors have such a high degree of recognition and inter-reliability, conscientious boards and voters could amass personal and publically available information about the individual and then, using a reasoned-judgment technique, develop forced-rankings of them onto a scale that would lead to creating a given leader's H Factor score. Table 1 offers a rating scale instrument and evaluation mechanism for this purpose. Through more research, this scheme could be refined and improved.

The contributors to an "H Factor" can be either positive or negative. Honor, humility, and honesty make <u>positive</u> contributions to a score. In other words, the more a person manifests these characteristics, the more likely it is that they will adhere to high ethical standards, moral principles and make use of all available information sources. Conversely, the illustration identifies hubris, hypocrisy, and hostility as <u>detractors</u> to leadership, which have been shown by researchers to have negative impact on judgment, risk propensity, and processing information. One would assign an individual's position within each category by carefully perusing publically available documents, talking with people who personally know the individual being assessed, as well as relying on observations in public forums. The process is not dissimilar to a thorough employment background check, but with the added advantage of high inter-rater reliability because traits and behaviors are being assessed.

TABLE 1
CONTRIBUTORS TO THE "H FACTOR" IN ORGANIZATIONAL LEADERSHIP EFFECTIVENESS

Positive Qualities or Characteristics	**Limited = 1 pt.**	**Average = 2pts.**	**High = 3pts.**	**Individual Rating**
Honor				3
Humility				3
Honesty				3
Negative Qualities or Characteristics	**High = 1 pt**	**Average 2 pts.**	**Low 3 pts.**	
Hubris				3
Hypocrisy				3
Hostility				3
"H Factor" Score				18

Note: The "best" score would be 18; the "worst" would be 6.

It is tempting to dismiss the H Factor construct because it is subjective and can't be practically measured via paper and pencil tests. But, subjectivity is equally pervasive in many things in organizational life. Performance appraisal, for example, is in great part subjective. Whether one is performing well or poorly is largely in the eye of the beholder. But, over time, systems and procedures have been developed that "objectify" that subjective process to the point where performance evaluation systems are accepted as reliable and valid.

In the private sector, too many corporate boards have no systems in place to properly prepare them for an errant CEO or for other crises. (Lublin and Tuna, 2008). We submit that a great deal of information is available in the public domain about leaders and their actions, and/or obtainable from other sources. This information can be reviewed and then aggregated into an H Factor profile for a leader. If the organization, if the position, if the "cause" that a person is leading, or would be leading, is important enough, then the time and effort required to create an H Factor profile or score for that leader is warranted. This applies not just to corporate leaders, but to those seeking election, re-election, or appointment to government leadership roles as well.

CONCLUSION

Our study suggests that the quality of leadership exhibited by key players may have been adversely affected by behavioral shortcomings which could have been identified well before the crisis occurred. When all of the evidence is finally in about the story of the United States' "Great Recession" of 2007-2009, that story will likely show that failures among leaders who were the key players in what took place will not be attributed to their lack of education, their lack of skill, their lack of experience, or their lack of spending lots of time on their job. Instead, the failures will be pinned on personal failures. It will be shown that shortcomings in the areas of honor, humility, honesty, hubris, hypocrisy, and hostility had at least as much to do with the meltdown as did technical failings. Many of the behaviors and traits in the H Factor profile are correctable or changeable through awareness. Recognizing behavioral deficiencies is the first step toward taking corrective action. Leaders at the top of organizational pyramids need to examine their own characteristics first, and correct or adjust their own behaviors. Thereafter, they need to move down the organizational pyramid and work to improve the H Factor scores of their subordinate leaders. If the process can be moved toward a logical conclusion, improvement in leadership and avoidance of an occurrence like the 2007-2009 debacle can be avoided.

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