

An Initiative for Responsible Leadership

THE CRISIS: ESSEC TAKES ACTION

Cergy, December 17, 2008

On Wednesday, December 17, ESSEC held a kick-off conference to launch its Interdisciplinary Forum "Questioning the Crisis" involving more than **50 professors committed to joint research on everyone's primary concern: the crisis.**

The current crisis is economic, financial, social, etc. It puts into question many aspects of the world economy, of the financial system, and of our industry. It therefore requires versatile solutions that depend on the support and involvement of specialists in management and other fields. No single person – no matter how intelligent – has *the* answer. However, with a Forum open to diverse areas of expertise, analysis and research on possible remedies, together, we have a better chance to successfully determine the best solutions.

The nature of this crisis is global as well, but for the first time in history, it also represents a unique opportunity for the international academic community to communicate in real time, just as world economic and political leaders do. For such an unprecedented effort, the academic community must act together and not separately.

ESSEC has thus decided to spearhead a responsible leadership initiative in this time of crisis and hopes other institutions will join its efforts. Resolving the financial crisis must be considered a fundamental research objective over the months and years to come.

A complex response to a complex crisis.

A global and multi-faceted response to a global and multifaceted crisis.

An international academic response from an international academic community.

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*All forum debates and proposed solutions are available on ESSEC's website at:
<http://www.essec.fr/sites/forum-essec/index.html>.*

ESSEC FACULTY SUGGESTIONS

For the governance crisis

- Create a public authority to evaluate regulatory bodies.
- Work towards developing a system of oversight guidelines for world markets.
- Give existing oversight systems more “teeth” to make them more effective, both within companies, and also on the national and international levels.
- Improve European governance for better decision-making, also in the interest of getting past the crisis in consumer confidence for both citizens and stakeholders in Europe.
- Reinforce control measures and expertise on corporate boards of directors, especially by training board members and limiting the length and number of mandates allowed.
- Research and thoroughly investigate all of the mechanisms that lead to increased risk, complexity and the dilution of responsibility, and develop appropriate responses.
- Regularly publish open and independent financial oversight reports on listed companies.
- Change the financing model for rating agencies to avoid conflicts of interests.
- Establish a clear system of compensations and incentives in the financial sector in order to favor the role of world finance as a means to serve the real economy (versus virtual finance).
- Leave some leeway for self-regulation and personal support to codes of ethics, next to official regulations.

For the financial crisis

- Identify all of the consequences stemming from the factors that caused or precipitated the financial crisis – including the role of US political measures that favored “rotten” credits.
- Assess the advantages and risks posed by sophisticated financial products, including CDS (Credit Default Swaps), and securitization. Making sure these products are transparent and traceable, as well as all the risks they incorporate (credit, market, liquidity, operational).
- Better control the sophisticated financial products, by favoring organized markets, rather than privately negotiated markets.
- Better manage the effects of changes that securitization had on the traditional banking business model by separating better retail activities from others, in order to avoid a market dysfunction from impacting directly the usual sources of financing of the real economy.
- Better regulate the financial intermediaries’ transfer of risk to hedge funds to reduce moral hazard, for which the dangers were underestimated.
- Make sure that all parties who are responsible creating, overseeing, benefiting, and assuming the risks of financial products fully understand both their advantages and risks.
- Make sure that risks are fully covered. Improve international IFRS norms.
- Expand expertise in financial techniques (knowledge of products), economics (effects produced on systems), and managerial skills (including the impact on individuals through psychological and sociological approaches).
- Remodel the compensation systems for market operators and set compensation limits.
- Improve financial information communication (why not create a European SEC?).
- Treat each situation differently. For example, the financial crisis is becoming a real estate crisis in France, while the United States is experiencing the reverse situation.

- Confront the consequences of a fundamental restructuring of the American banking industry, and also the risks posed by concentration in the system.
- Shift towards a sustainable, long-term approach to protect personal assets. For example, in real estate in France, such an approach is now taking precedence, in contrast to the recent prevalence of short-term thinking, especially for business property.

For the world economic crisis

- According to the type of problem, carefully determine on what level political level measures must be taken (international, European, or national). Similar situations may be affected by different development levels, industries more or less affected depending on the country, etc.
- Examine in detail the so-called *credit crunch* which statistics do not confirm neither in the United States, nor in Europe – only the growth of credit has decreased, after excessive levels
- Be careful to measure the sometimes perverse effects (inflation or deflation, inadequate interference, incompetent personnel, etc.) of political decisions made in emergency situations (increased liquidity, bank recapitalization, takeovers, purchases of shares, incompetent members of boards of directors, etc.).
- Question Keynesian recipes (monetary or budgetary) which, pushed to the extreme, might be dangerous, and if we are not careful, may plant the seeds of the next crisis.
- Initiate an interdisciplinary research program on transition problems.
- Reintegrate a historical perspective in courses on economics and finance to improve understanding of, for example, crisis cycles and their recurring nature.

For the consumer confidence crisis

- Be attentive to, and fight against consumer withdrawal more than ever before.
- Step back from the situation, ask questions and question one's own actions.
- Prioritize multi-sided responses to the crisis to take its multi-faceted nature into account (a crisis affecting the economy, finance, real estate, food, sales, human resources, energy, unemployment, etc.).
- Make collective efforts via concrete initiatives to ward against the effects of the crisis, especially for those in need (including in developing countries).
- Train managers to help prevent phenomena related to excessive confidence and reduced risk perception.
- Sooth sometimes unfounded fears and do not give in to excessive mistrust following a period of over-confidence by "throwing the baby out with the bath water".
- Avoid worst-case scenarios and simplistic analogies (the 1929 Depression, for example), including in the media.
- Be especially suspicious of unconfirmed information (for example, a rumor of an impending credit crunch) that can lead to a self-fulfilling prophecy.
- Redefine confidence as having both a long-term dimension (such as for innovation), and a short-term perspective concerned only with immediate performance, which is too often the dominant perspective these days.

For other underlying and related crises

- Ensure improved managerial coordination between different corporate divisions, while making sure both that financial functions are not isolated, and that the company does not become too financially-focused.
- Support efforts to adopt the use of standardized accounting terms (the IFRS system) that make it possible to obtain anywhere and at any time, and completely independently, accurate and reliable fair value information (Don't shoot the messenger!).
- Anticipate the impact of the crisis on customer relations, including in a situation of heightened shortages that companies can predict.
- In France, use the newly reduced 60-day payment deadline (the LME, a new economic reform law now in effect as of January 1, 2009) as a business leverage tool by breaking down barriers between corporate marketing and finance departments.
- Prioritize a human resources strategy that is not solely based on individualism and autonomous performance.

For the ethical values crisis

- Reintroduce ethics, and even the idea of virtue into our actions, including in our teaching and research by insisting on responsible leadership on the part of current and future managers.
- Stop thinking of people as "ends" in and of themselves, but as a "means" to an end within organizations, the market economy, and the society in general.
- Dispense with myths of money or technical prowess as all-powerful.
- Question the legitimacy and responsibility of different forms of authority (economic, political, academic, media coverage, etc.) before and during the crisis by making sure that the appropriate skills and the right information has been used.
- Fight against the irresponsible behavior of some executives, including by taking legal action.
- Initiate class action lawsuits against executives at fault for misuse of public funds.
- Put people first in businesses by establishing ongoing dialogue.

About ESSEC

Founded in 1907, ESSEC Business School is a major actor in international management education.

19 undergraduate degrees and 25 executive education certificate and degree programs are offered with 1,300 Masters' and MBA degrees awarded each year. The student body of 4,000 includes 1,200 international students of 82 nationalities.

Courses are taught by researchers of international renown and executives of well-known companies. Together, they perpetuate a tradition of academic excellence, encourage individual creativity, personal development, and a spirit of openness to best serve business and social concerns. For additional information: www.essec.edu.

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