“Central Bank Challenges in the VUCA World and the Urgency of Transformational Leadership”¹

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Distinguished Speakers,

- **Professor Paul Brown**, Faculty Professor of Organisational Neuroscience, Monarch Business School, Switzerland,
- **Mr. Michael Morgan**, CEO of Hermann International Asia Pty. Ltd.,
- **Ms. Anette Prehn**, Sociologist and Author of five books on the Rule of the Brain,
- **Dr. Taufiq Pasiak**, Head of the Centre of Brain and Social Behavioural Study, LPPM, UNSRAT, Manado,
- Moderators,
- Dean and faculty member ALGM, Bank Indonesia Institute,
- Distinguished Officials and Representatives from the participating countries,
- Ladies and Gentlemen,

Assalaamu’alaikum Wr. Wb.,

**Peace be on us,**

*Good morning and welcome to Yogyakarta, a renowned centre of education as well as classical Javanese fine art and culture, including the world-famous batik designs.

First of all, let’s extend our gratitude to Allah, God Almighty, since it is with His blessing we can congregate at this event here today.

It gives me such great pleasure this morning to have an opportunity to deliver my speech to this international leadership seminar on Transformational Leadership: Coping with the Challenges in a VUCA Environment, An Applied Neuroscience Perspective, organised by the Bank Indonesia Institute.*

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¹ Opening Speech at the International Leadership Seminar on “Transformational Leadership: Coping with the Challenges in VUCA Environment, An Applied Neuroscience Perspective”, Yogyakarta, 18 – 19 October 2017
1. Following our first international leadership seminar in 2016, we enthusiastically welcome this themed event, which combine both academic and practical perspectives. As we have already noted, almost a decade since the global financial crisis of 2008/09, the world economic condition has not fully moved toward its normal state. This is reflected, not only by the global economic growth in the last five years which is still below its long-term average, but also the global financial markets that are still overwhelmed by very high uncertainties.

2. The world has changed as we entered the new situation with full of volatility, uncertainty, complexity, and ambiguity, known as VUCA. In this context, the characteristics of problems and challenges continue to evolve throughout the history of human civilization. The movement of the future will be more difficult to predict (unpredictable). The root cause of the regulations will be more unclear (unknown). Consequently, the regulation directions which are made by authorities and market participants become more uncertain directing the unpredictable future. Changing is happening fast with new era arises replacing the old one. In addition, the series of crisis occurred last two decades indicate the vulnerability occurring in one country will be spread into regional and even global crisis with various unpredictable factors.

3. From the leadership perspective, an organization needs to be prepared and be able to translate the challenges into a clear vision and actions as faces a VUCA world and massive global megatrends (KPMG International, 2014). Therefore, it is timely and relevant to hold an international seminar on leadership. It is true that, on behalf of Bank Indonesia, we encourage and challenge our staff and officials to offer the most up-to-date and pre-eminent, internationally-exposed leadership programs.

4. This two-day seminar represents the most apposite answer to numerous issues: not only does it illuminate a progressive topic but the speakers are world-class, recognised as the authorities in their respective fields and involving many countries. We are convinced that this seminar will offer many mutual advantages and benefits. Moreover, this event serves as a great
opportunity to develop networks, develop leadership exposure and expand intellectual sharing among Asian and Pacific countries. This two-day event is a proactive response from us as Economic Leaders (Government, State-Owned Enterprises, Central Bankers, the Private Sector and other key stakeholders) to focus our attention, share our experiences and hone our circle of influence to make the world a better place with our prominent world-class speakers in the field of transformational leadership and applied neuroscience.

5. Not only will the speakers present their materials but relevant simulations and case studies will also be shared and explored. Consequently, we shall all benefit from tangible key take-aways upon our return to our respective countries or institutions.

**Distinguished Speakers, Ladies and Gentlemen;**

6. Speaking on the other dimension of crises, we may agree that one of the biggest crises facing us nowadays is a leadership crisis. Leadership is a doubled-edged sword: it can either be the solution to our problems or the root cause of our problems (Shahid, 2015). As leadership becomes more important, however, a preparedness gap between our leaders has become wider. One of the main problems facing organisations is how to manage the leadership pipeline against a backdrop of rapid organisational growth but a tendency for low engagement (Deloitte, 2015). Therefore, it is crucial to focus on the integrated development of strategic leadership in order to identify and develop leaders capable of surfing the current wave of ever-changing dynamics.

7. That is why we desperately need transformational leadership; a kind of leadership that not only motivates and drives, but is also agile in any situation or circumstance. A sort of leadership that can spearhead organisational, or even national, transformation. It is true that an organisation is unable to transform itself before its leaders have transformed themselves. Transformational leadership, therefore, is a sort of participatory leadership, where the leader and the followers synergise to achieve a joint vision and mission.
8. There is an ongoing trend, tracking a paradigm shift from human resources management to brain resources management. The human brain, which has more than one-hundred billion nerves and one-hundred trillion connections, draws neuroscientists to examine the activities and mechanisms of brain cells that affect human behaviour. Neuroscience is defined as the study of the nervous system behind biological processes that occur in the brain when a human thinks or acts. Applied neuroscience research is believed to be an effective solution to help the transformation of people and organisations because the brain is the master of control that integrates the entire human body, including the dominant components of the heart and the gut. The leader is also a master of control within the organisation. A leader is able manipulate other people's brains by managing their own; thus, bringing the followers’ brains in line with the leader's. When the leader’s and the followers’ brains are aligned, they will synergise effectively to achieve common goals.

9. Transformational leadership is a sort of participatory leadership that improves the followers’ morality, internal motivation and performance by changing their mindset and behaviour along with improving organisational effectiveness. There are four components that characterise a transformational leadership style as follows: (i) idealised/charismatic influence. The leader’s vision and mission are in harmony with the organisational vision and mission. The leader is committed and consistent in every decision made such the followers will voluntarily follow; (ii) inspirational motivation. The leader sets high standards and encourages achievement; (iii) intellectual stimulation. The leader advocates and facilitates the followers to nurture a learning culture; and (iv) individualised consideration. The leader’s ability to understand the differences between each follower and the ability to facilitate development.

10. Transactional leadership is facing challenges in this VUCA era. An organisation now requires a flexible and adaptive leader in this new world of rapid change. A leader should always learn and reaffirm the organisation’s vision and strategy to avoid being left behind by the progress of time. Only a transformational leader has the flexibility and adaptability required. The bureaucracy and rules that permeate transactional leadership tend to be rigid and, therefore, unable
to accommodate creativity and innovation. Consequently, the organisation will need a new vision. A transactional leader works within an established organisational culture, without seeking to create a new culture or strategy like a transformational leader would. Transformational leadership emerges with a leadership style capable of accommodating aspects that are a transactional leader’s weaknesses. The competencies of transformational leadership are complete, including several conventional leadership competencies. As a future leadership style, transformational leadership is considered capable of transforming an organisation’s paradigm and values to optimally achieve its vision and mission.

11. In order to transform an organisation, the leader must have command over several basic competencies, categorised as inner, others and outer clusters, also known as the Triple Focus. The clusters show that a transformation has to start from the leader (leading self) and then trickle down to the rest of the organisation (leading people). The last stage of transformation is the organisation itself (leading organisation). Inner-focus or leading oneself is needed to ensure the leader is aware of his or her own values, feelings and intuition, and also understands how to properly manage them. The others-focus or leading people requires the leader to decipher, understand and manage the relationship with the followers. Finally, the outer-focus or leading organisation requires the leader to understand the strengths of the wider system. The leader has to navigate and determine the best-fit strategy deemed most appropriate.

**Distinguished Speakers, Ladies and Gentlemen;**

12. From a central bank perspective, Bank Indonesia recognizes that the problems and potentials challenges facing Indonesian economy cannot be solved only by strengthening the institutional structures and policies, but should be beyond the conventional wisdom. Bank Indonesia is also required to be an agile and adaptive organization in order to face this complexity. Asides from strengthening policy strategies across the various domains of central bank policy (monetary, financial system, and payment system), Bank Indonesia also
recognizes the role and importance of competent human resources. The exposure about economic leadership needs to be embedded into each learning domain in order to create awareness about the importance of innovative leadership and strategic contribution to support sustainable economic growth.

13. In 2014, Bank Indonesia has started implementing a comprehensive transformation program. This program is aimed to ensure the function, task and authority of Bank Indonesia in delivering its mandate (achieving and maintaining the stability of the rupiah value), can be conducted in a sustainable manner, with the support of strengthening the strategic values (trust and integrity; professionalism; excellence; public interest; coordination and teamwork). In line with that, Bank Indonesia's transformation program is also implemented to achieve Bank Indonesia's vision as the credible and best central bank in the region.

14. The development of central bank human resources quality to lead the national economy is a big challenge that demand an adequate response. Human resources management is expected to mould professional and competitive human resources with economic insights and strong leadership qualities to anticipate future challenges. In line with these strategic steps, we believe that reliable research, especially related to frontier issues in the field of leadership is sufficient in supporting the sustainability of the organization. That’s why Bank Indonesia Institute consistently strengthens the learning and research pillars in the field of leadership and managerial. To craft our commitment, this year we have completed a preliminary research on transformational leadership based on applied neuroscience.

15. Therefore, in this special juncture, allow me to share with you some findings of our study. The study concludes that transformational leadership is needed because this style does not only motivate and drive the organization (e.g. central bank) vertically and horizontally but also realizes the capacity of the organization to be agile and adaptive in every circumstance. In this regard, applied neuroscience approach, compared to some other approaches, can
provide a better understanding of the brain’s activities that can help the leader to lead the organizational transformation (Juhro and Aulia, 2017).

16. We show that, the applied neuroscience through multiple transmission channels, by targeting respective applied neuroscience interventions to transformational leadership competencies, can help the transformational leader and followers to achieve physical, emotional, and mental safety as well as encourage the organization to transform effectively. In addition to strive the new perspective of transformational leadership studies, this study provides an important contribution related to applied science, in particular, mapping the transmission mechanism of brain activities that affect body’s reaction, internally (emotions and hormone) and externally (body reaction and behavior), which further affect transformational leadership behaviors.

17. Regardless of the claims that this study analytically provides an important contribution to applied sciences and knowledge in the context of leadership, especially in terms of mapping the neuroscience transmission mechanism, we believe it is important to further validate such claims to ensure convergence not only between the theoretical and practical aspects of the organisation, but also within the portrait of the human brain mechanism. Further steps need to be taken, especially validating the results of the medical cognitive-based tests and executive brain assessments. Accordingly, we are still working on this study through supporting tests that are expected to produce various studies in the field of applied neuroscience.

18. At this early stage, we have shared a short version of working paper on this pertinent issue. We are still conducting research, while also deepening and enriching the content with additional findings. We hope that the publication will encourage experts in the related fields to further explore the application of neuroscience in various fields. Moreover, we are convinced that our distinguished speakers shall enlighten us on this matter and contribute greatly to the development of this nascent applied science that we expect to flourish over time.
Distinguished Speakers, Ladies and gentlemen;

19. Before I conclude my remarks, let me (on behalf of Bank Indonesia) express my appreciation to distinguished resource persons for their avowed support and collaboration, as well as for delivering a successful event. Thanks also to all participants for attending this seminar.

20. Finally, let us share with you that Yogyakarta is well known for its rich traditions, historical values and warm culture. For those of you who do not know yet, Yogyakarta was once the capital of Republic of Indonesia during the period of revolution when this new republic was born. Therefore, there is a historical context also, when we hold this event in Yogyakarta. I hope being in this beautiful land will bring us a memorable experience and relaxed atmosphere, while at the same time, stimulating our senses, thought processes, innovativeness, and creativity that will help us having a fruitful discussion in the seminar.

21. Finally, this is an opportune time for me to declare the “International Leadership Seminar on Transformational Leadership: Coping with the Challenges in VUCA Environment, An Applied Neuroscience Perspective” officially open.

Thank you.
Wa billahi taufiq wal hidayah. Wassalamu alaikum Wr. Wb.

References