STRATEGIC LEADERSHIP IN A DEPRESSED ECONOMY

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Abstract

There was a serious economic crisis in the 20th century which witnessed the entry of governments into large areas of the economy that had been in the past exclusive to private hands. To alleviate depressions, there was need to adopt programs to do with job reeducation programs, government employment of the previously unemployed, and increased public welfare responsibilities. The economic crisis period 2000 to 2009 discredited the leadership and management practices triggering a wave of thinking and experimentation. This crisis will be a powerful catalyst for change in both the theory and practice of leadership and governance. Therefore it does highlight the rapid changes in board practices and articulates some clear direction for change both in the structure for governance and management, and in the characteristics that leaders will have to display. It goes without saying that widespread recognition of reality is the crucial step before problems can be solved. In other words Leaders can't solve problems if they don't acknowledge their existence. Leaders breed trouble by assuming that a strong market position is an insurance policy against trouble. Leadership indecision, decisions and unstable character had led economies into a depressed state for which its governments, lacking leadership capabilities, were unable to prescribe valid solution to halt the early noticed vacillating signs of failure. The consequence of the actions of the bad leadership decision is the imposing poverty, inequality and growing insecurity which it is now the present leadership is finding it difficult to remedy. The leaders we need now will have the perspective, the mentality, the confidence, and the authority to call for radical changes in direction.

Key words: depression, economic downturn, strategic leadership, strategies

Depression

Depression is defined as a severe and prolonged recession. A recession is a situation of declining economic activity. It is a period of decline in total output, income, employment and trade, usually lasting six months to a year and marked by widespread contractions in many sectors of the economy. Generally, when an economy continues to suffer recession for two or more quarters, it is called depression. A depression is characterized by economic factors such as substantial increases in unemployment, a drop in available credit, diminishing output, bankruptcies and sovereign debt defaults, reduced trade and commerce, and sustained volatility in currency values. In times of depression, consumer confidence and investments decrease, causing the economy to shut down. It is a state of the economy resulting from an extended period of negative economic activity as measured by GDP. The
level of productivity in an economy falls significantly during a depression. Both the GDP (gross domestic product) and GNP (gross national product) show a negative growth along with greater business failures and unemployment. When a recession continues to take its toll on any economy, the built in process triggers further cuts in investment as well as consumption spending due to loss of confidence among investors and consumers. Also, the financial crisis may lead to decreased availability for credit. Excessive fluctuations happen in relative value of currency. Overall trade and commerce get reduced. The Great Depression of 1929 is considered to be the most classic example of a depression in economic history.

In other words, a depression develops when overproduction, decreased demand, or a combination of both factors forces curtailment of production, dismissal of employees, and wage cuts. Unemployment and lowered wages further decrease purchasing power, causing the crisis to spread and become more acute. Recovery is generally slow, the return of business confidence being dependent on the development of new markets, exhaustion of the existing stock of goods, or, in some cases, remedial action by governments. Depressions and recessions today tend to become worldwide in scope because of the international nature of trade and credit. Insufficient numbers of profitable investment outlets, overexpansion of commerce, industry, or agriculture, a stock-market crash, the failure of a great banking or industrial firm, or war may be among the precipitating factors of a downturn. In antiquity and even up to the 18th century depressions had chiefly noneconomic causes, such as wars and weather induced crop failures? From 1700 to 1825 economic crises were in the main speculative or commercial, but since 1825 they have been increasingly industrial, although the Japanese recessions of the 1990s were caused in part by reduced consumer demand. The economic crises of the 20th century saw the entry of governments into large areas of the economy that had previously been in private hands. Job reeducation programs, government employment of the previously unemployed, and increased public welfare responsibilities are among the programs adopted to alleviate depressions.

Leadership

It involves establishing a clear vision, sharing that vision with others so that they will follow willingly, providing the information, knowledge and methods to realize that vision, and coordinating and balancing the conflicting interests of all members and stakeholders. A leader steps up in times of crisis, and is able to think and act creatively in difficult situations. Unlike management, leadership cannot be taught, although it may be learned and enhanced through coaching or mentoring. Someone with great leadership skills today is Bill Gates who, despite early failures, with continued passion
and innovation has driven Microsoft and the software industry to success. Leadership involves the act of inspiring subordinates to perform and engage in achieving a goal.

Strategic leadership

While there are many different definitions of strategic leadership, I define it as the ability to influence others in your organization to voluntarily make day to day decisions that lead to the organization’s long term growth and survival, and maintain its short term financial health. The most important aspects of strategic leadership are shared values and a clear vision, both of which will enable and allow employees to make decisions with minimal formal monitoring or control mechanisms. With this accomplished, a leader will have more time and a greater capacity to focus on other, ad hoc issues, such as adapting the vision to a changing business environment. In addition, strategic leadership will incorporate visionary and managerial leadership by simultaneously allowing for risk-taking and rationality.

Managerial leaders need order and stability to be able to control the details of the work being performed. Mostly, these leaders have no personal attachment towards setting and using goals as motivational tools, and they may have difficulty showing empathy when dealing with employees. They will attempt to gain control through systems of rewards, punishment, and other forms of coercion. These leader/managers will be focused on the cost-benefit analysis of everyday actions and will therefore be mostly linked to the short-term financial health of the organization, as reflected in its day-to-day stock price.

While managerial leaders are focused on the past, visionary leaders are oriented to the future. Their main tool for achieving goals is their ability to influence followers, influence they use to create a shared vision and an understanding of what is to be achieved. These leaders rely heavily on their own values, and they invest in people and their network of relationships in order to ensure the viability of the organization. They articulate a compelling vision, and then empower and energize followers to move towards it. The formal structures of the organization will create few constraints for these leaders, as they make decisions and shape their vision based on their values, beliefs, and sense of identity.
Leadership Theories

There are many models and theories of leadership. For example the following models appear in the literature:

*Great Man Theory*

Great Man theories assume that the capacity for leadership is inherent, that great leaders are born, not made. These theories often portray great leaders as heroic, mythic, and destined to rise to leadership when needed. The term “Great Man” was used because, at the time, leadership was thought of primarily as a male quality, especially in terms of military leadership.

*Trait Theories*

Similar in some ways to “Great Man” theories, trait theory assumes that people inherit certain qualities and traits that make them better suited to leadership. Trait theories often identify particular personality or behavioral characteristics shared by leaders. But if particular traits are key features of leadership, how do we explain people who possess those qualities but are not leaders? This question is one of the difficulties in using trait theories to explain leadership.

*Contingency Theories*

Contingency theories of leadership focus on particular variables related to the environment that might determine which particular style of leadership is best suited for the situation. According to this theory, no leadership style is best in all situations. Success depends upon a number of variables, including the leadership style, qualities of the followers, and aspects of the situation.

*Situational Theories*

Situational theories propose that leaders choose the best course of action based upon situational variable. Different styles of leadership may be more appropriate for certain types of decision-making.

*Behavioral Theories*

Behavioral theories of leadership are based upon the belief that great leaders are made, not born. Rooted in behaviorism, this leadership theory focuses on the actions of leaders, not on mental qualities or internal states. According to this theory, people can learn to become leaders through teaching and observation.
Participative Theories

Participative leadership theories suggest that the ideal leadership style is one that takes the input of others into account. These leaders encourage participation and contributions from group members and help group members feel more relevant and committed to the decision-making process. In participative theories, however, the leader retains the right to allow the input of others.

Management Theories

Management theories (also known as “Transactional theories”) focus on the role of supervision, organization, and group performance. These theories base leadership on a system of reward and punishment. Managerial theories are often used in business; when employees are successful, they are rewarded; when they fail, they are reprimanded or punished.

Relationship Theories

Relationship theories (also known as “Transformational theories”) focus upon the connections formed between leaders and followers. These leaders motivate and inspire people by helping group members see the importance and higher good of the task. Transformational leaders are focused on the performance of group members, but also want each person to fulfill his or her potential. These leaders often have high ethical and moral standards.

Role Theory

People define roles for themselves and others based on social learning and reading. People form expectations about the roles that they and others will play. People subtly encourage others to act within the role expectations they have for them. People will act within the roles they adopt. Within organizations, there is much formal and informal information about what the leader's role should be, including leadership values, culture, training sessions, modeling by senior managers, and so on. These and more (including contextual factors) act to shape expectations and behaviors around leadership. Role conflict can also occur when people have differing expectations of their leaders. It also happens when leaders have different ideas about what they should be doing vs. the expectations that are put upon them. Role expectations of a leader can vary from very specific to a broad idea within which the leader can define their own style. When role expectations are low or mixed, then this may also lead to role conflict.
**Contingency Theory**

The leader's ability to lead is contingent upon various situational factors, including the leader's preferred style, the capabilities and behaviors of followers and also various other situational factors. Contingency theories are a class of behavioral theory that contends that there is no one best way of leading and that a leadership style that is effective in some situations may not be successful in others. An effect of this is that leaders who are very effective at one place and time may become unsuccessful either when transplanted to another situation or when the factors around them change. This helps to explain how some leaders who seem for a while to have the 'Midas touch' suddenly appear to go off the ball and make very unsuccessful decisions.

**Leadership Lessons and the Economic Crisis**

The financial crisis period 2000 to 2009 discredited the leadership and management practices of financial institutions, triggering a wave of thinking and experimentation about what could and should replace them. The crisis surely produced changes in aspirations and practices in organizational leadership, influencing not just banks and brokerage houses but businesses in every industry. The above perspective puts the process in the context of trends in leadership over the past 30 years, and predicts some of the new and back to basics actions we can anticipate. It highlights the rapid changes in board practices and articulates some clear direction for change both in the structure for governance and management, and in the characteristics that leaders will have to display. This crisis will be a powerful catalyst for change in both the theory and practice of leadership and governance. There are always prevailing trends in the practice and theory of leadership and if anything, these trends are getting more and more cohesive. When there is approval and applause for any particular model of leadership, it creates a gravitational pull on actual practice. Institutions tend to change towards that model, executives promote and behave under the influence of the fashion, and for a time the spread of practice accelerates the trend. The ways in which management and governance structures change and interact with new leadership styles, will play an enormous role in shaping institutions. It isn’t yet entirely clear what norms and values the new industry leaders will champion, but the pressures on them are evident, and the history of managerial culture suggests that we will see major transitions in both organizational practice and leadership styles.
A short history of recent leadership styles

Between the early 1980s and 2001, the “leader as hero” was the most celebrated model. The prevailing philosophy said that clear, strong leadership would shake the corporation free of past bureaucratic mindsets. Tremendous value was created by clear-sighted individuals who took their institutions by the scruff of their necks and propelled them into modernization and competitiveness. Jack Welch at GE and John Browne of BP shook up old organizations, weighed down by process and committees, and, shining clear light from the top, transformed their performance. The spotlight also caught a number of similarly powerful entrepreneurs, from Richard Branson to Steve Jobs to Bill Gates. And there was a parallel in politics. These were the years when Margaret Thatcher bestrode the political world. Her style and her definition of leadership were profoundly influential. Even Mikhail Gorbachev reflected, in his persona, that Welch-like, Thatcher like style of individual leadership that Politburo collectivism had previously suppressed.

Then, around the turn of this century, this predominant theory of the “leader as hero” was increasingly questioned, first in academic circles and among informed commentators, then more broadly. One thing that pushed the individualistic model of leadership off the pedestal was the fallout from the dot-com bust. That downturn revealed flaws, failure, and even disgraceful conduct of some noteworthy individualistic leaders, in the corporate world especially. This was the time of Enron, WorldCom, Tyco, and Parmalat. But as thinking moved away from the “leader as hero,” a new model was needed. The concept of “leadership teams” replaced it. The most successful leaders were reinterpreted as conductors of the team, as if it were an orchestra. Accordingly, there was an emphasis on the people building skills of the top executive. Teams ran companies.

Now we face another transition. Our current disastrous financial and economic crisis once again shakes our confidence in the prevailing leadership style. Organizations until recently hailed as champions, and led by masters of the universe, are seen as hollow monsters. Banks, car companies, regulators, governments they got it badly wrong, and we are all paying the price. The leadership teams in charge, it is believed, were quietly attending to their bonuses or corporate jets and not paying attention to the risks. The impact on leadership in business will probably be felt most quickly at the board of director’s level, in how boards play their role. Driven by fear of the risks that have been exposed, boards will start by changing their own behaviors, and go on to revise formal governance structures, team composition, and the personality and skills of the people they appoint. The old truths, and important ones, suggest that to lead, leaders must have foresight, and they must lead by example. They must motivate and
inspire on a moral basis, through aspiration as well as rewards and punishments. It is precisely this calm, considered, and ethical leadership, required to lead and inspire large numbers of people when the economics are tough, that seems in such short supply today.

Leadership is a generic and a normative term that operates for the good of society. However, in most cases, especially African countries, rather than use it to serve the public good, leadership has become a resource for the holder of state power as it provides him/her the opportunity to seek self-interest to the maximum space possible. For those outside the corridors of state power leadership is a source of exploitation, pain and deprivation of their fundamental right to an egalitarian society. This picture of leadership has generally resulted in the increasing apathy and lack of trust for government among most countries. People no longer see leadership as constituted to contribute to the peaceful attainment of their progressive socio-economic goal. This view is anchored against the role of leadership in significantly contributing to the depression of the national economy, continued failed development process and the irrational and staled implementation of the policy option of privatization. The privatization program which spanned over two decades in implementation have not in any way taken off the dark clouds of hopelessness and growing pains of lack of access to basic goods and service and increasing unemployment. Leadership it is a valued resource which if effectively articulated and operated has the capacity to contribute to the efficient mobilization of national resources by genuinely turning the depression for the good of all and also promoting national development. and utility for national development.

Leadership reflects a trust for which the holder must at all times act in ways that is in the interest of the giver. Specifically, it is a contractual relationship defined in terms of a principal-agent relationship; one for which the agent must constantly seek ways of improving the state and condition of the principal. The political process of periodic election presents the platform upon which both the principal and the agent as it were negotiate and re-negotiate the term of the contract. Once signed via popular election, the terms of the contract is binding on all parties for a defined period of time for which a new contract will be re-entered into either with the old agent or an entirely new agent. The change of the agent for a new one will depend on the performance and score card of the old agent. It is therefore of the essence for the agent who through the political process is contracted to form a government (leadership team) aimed at achieving the goals of the principal defined in terms of progress and values. In the process of pursuing these values and progressive ends resources must be mobilized and utilized for the attainment of those ends contractually agreed upon through the political process.
It is easier to attain those goals where resources (resources are in this context defined in terms of human, finance and natural endowment) are readily available and are put into productive uses. The ability of leadership to mobilize resources for the attainment of consensus goals of the collectives is dependent on the character, will, trust and tact of the leader. This does not preclude the nature of decision making, discipline, and the management framework the leader and his/her management team espouses in the process of extraction, production and distribution channeled towards promoting the good life for all in the polity. The ability of an individual to positively combine these characteristics and utilize it for the good of the whole society makes leadership a valued resources in itself to be cherished, obeyed and followed; in which case the population are willing to subject themselves to the orderly demand and sacrifice necessary to attain set goals. However, where these characteristics are selfishly employed in the process of ruleship success in the pursuit of progressive goals of the collectives is regrettably fractured irrespective of how well those goals are articulated and projected. Under this pattern of behavior, gross abuse of the rights of the collectives is ever present with the meager resources of the state misappropriated by self seeking leaders (resources of the state for growth and development). Unfortunately, contemporary evidence shows that these potentials have not been realized essentially because of bad governance which boils down to leadership issue. This is because the weak character of leadership in the social, political and economic spheres have continued to produce undesirable environment favorable for growing poverty, unemployment and inequality among the population in the system. This compromised pattern of leadership resulting from leadership failures which have been occasioned by poor vision, weak will and failed discipline by those in position of public authority over the years. Hence, the consequence is the failed state of infrastructure, insecurity, arbitrariness and the disrespect for the rule of law by both leaders and the governed.

**Strategies in economic downturn**

*Leaders can't solve problems if they don't acknowledge their existence*

Reality starts with the person in charge. Leaders need to look themselves in the mirror and recognize their role in creating the problems. Then they should gather their teams together and gain agreement about the root causes. Widespread recognition of reality is the crucial step before problems can be solved. Attempting to find short-term fixes that address the symptoms of the crisis only ensures the organization will wind up back in the same predicament. In order to understand the real reasons for
the crisis, everyone on the leadership team must be willing to tell the whole truth. Leaders can’t solve problems if they don’t acknowledge their existence.

No matter how bad things are, they will get worse.

Faced with bad news, many leaders cannot believe that things could really be so grim. Consequently, they try to convince the bearers of bad news that things aren’t so bad, and swift action can make problems go away. This causes leaders to undershoot the mark in terms of corrective actions. As a consequence, they wind up taking a series of steps, none of which is powerful enough to correct the downward spiral. It is far better for leaders to anticipate the worst and get out in front of it. If they restructure their cost base for the worst case, they can get their organization healthy for the turnaround when it comes and take advantage of opportunities that present themselves.

Approach the economic downturn like a driver heading into a sharp curve

Slow in, fast out. Like dangerous curves on a racetrack, economic downturns create more opportunities for companies to move from the middle of the pack into leadership positions than any other time in business. Unlike situations where leaders can thrive on raw power alone, steep curves require strategic finesse. That often results in dramatic differences in performance as leaders steer out of the curve. Consider how Southwest Airlines Company surged ahead during the 2001 recession. With a clean balance sheet, a clear cost advantage and adroitly hedged fuel costs, the discount carrier grew at the expense of rivals. As others eliminated capacity and jobs, Southwest lowered fares to gain market share. It boosted advertising to trumpet its price advantage and built solid relations with labor by avoiding layoffs.

Many industry leaders fall from the top during recessions because they assume that a strong market position is an insurance policy against trouble. That approach breeds overconfidence. Executives postpone taking precautions or reach for the same levers they pulled in the past like hedging their bets by diversifying. When the downturn hits hard they usually over react. They slash costs and staff indiscriminately, cut capital expenditures, squeeze suppliers, and avoid strategic acquisitions. Then when conditions improve, they must spend heavily to regain momentum. The better approach is slow in, fast out like a good driver heading into a sharp curve. Winners in recessions tend to brake quickly heading into a downturn by managing costs carefully and consistently. It’s like downshifting to a lower gear to slow momentum and increase responsiveness. They focus on what the company does best,
reinforcing the core business and spending to gain share. They aggressively monitor the competition to ensure they have the best possible line through the curve. That sets them up to accelerate at the apex of the curve, when the economy starts to improve. The farther you can see and the quicker you can turn, the faster you can safely corner.

Change an entrenched culture

It is the toughest task you will face. To do so, you must win the hearts and minds of the people you work with, and that takes both cunning and persuasion. In their book “Blue Ocean Strategy,” W. Chan Kim and Renee Mauborgne cite four hurdles that face a manager trying to institute broad change in an organization. The first is cognitive i.e. people must have some understanding of why the change in strategy or in culture is needed. The second is limited resources. Inevitably, changing an organization will require shifting resources away from some areas and towards others. The third hurdle is motivation. Ultimately, workers have to want to make the change and the final hurdle is institutional politics. They quote one manager who complains: “In our organization, you get shot down before you stand up.”

To overcome those hurdles, they suggest a “tipping point” approach to management. First of all, recognizing you won’t be able to convert everyone at once, start with people who have disproportionate influence in the organization. Get them committed to the change, or, failing that, get them out. And once they are committed to change, shine a spotlight on their accomplishments, so others get the message. Secondly, instead of just lecturing on the need for change, look for ways to get people to experience the harsh realities that make it necessary. Third, look for ways to redistribute resources toward “hot spots” activities that require few resources but result in large change and away from “cold spots” or areas with large resource demands, but relatively low impact.

Businesses should focus less on their competitors and more on alternatives.

The rapid pace of innovation and change in recent years has led scholars and executives to search for an approach to strategy that is more dynamic than Harvard Professor Michael Porter’s classic “five forces.” One of the most successful efforts to do so is the book “Blue Ocean Strategy,” by W. Chan Kim and Renee Mauborgne. While avoiding use of Mr. Porter’s name, Mr. Kim and Ms. Mauborgne nevertheless attack him head on, arguing that the “five forces” analysis is a formula for remaining in “red oceans,” where the sharks compete mercilessly for the action. The key to exceptional business success, they say,
is to redefine the terms of competition and move into the “blue ocean,” where you have the water to
yourself. The goal of these strategies is not to beat the competition, but to make the competition
irrelevant. Quote "Those executives flying around in private jets and buying fourteen-hundred-dollar
trash baskets are making every leader look bad," says a manager at an automotive company in the
southern United States. "We've lost twenty five percent of our work force in my division, so I'm putting
in an extra twenty hours a week or more. Yet my division head is on her second cup of coffee when I get
in, and I have no idea what time she leaves at night."

In the toughest economy the world has faced since the Great Depression, most organizational leaders
aren't taking time to ponder the upholstery of their antique desk chairs, most are trying to make it
through the day. That reality presents two discrete leadership challenges: keeping a company on track
while the global economy is falling apart and keeping it functional until the economy recovers. Right
now, most executives are focusing on the former.

Conclusion

Changing the leadership character that has enabled poor resource mobilization and utilization that
has produced a depressed economy, with a resultant underdevelopment of its people, also means
changing the governance and institutional dimension that have provided the fertile grounds that
nourished the growth of bad leadership. Removing these system inhibitions enables leadership and
individuals to play rightly their role in the development process. Breaking down system and
institutional barriers that allow bad leadership enables the society through some combination of
social and economic and institutional processes to secure the means for obtaining a better life.

On the contrary, leadership indecision, decisions and unstable character had led economies into a
depressed state for which its governments lacking leadership capabilities were unable to prescribe
valid solution to halt the early noticed vacillating signs of failure. Rather than taking a nationalistic
state centric decision and action to reposition the economy for better functioning, self interest
became rather the deciding criteria for accepting external prescription which it was not ready to
sincerely implement. The consequence of the actions of the bad leadership decision is the imposing
poverty, inequality and growing insecurity which it is now the present leadership is finding it difficult
to remedy. These prevailing awkward economic, social and political circumstances challenging nations
should provide the premise for the emergence of a truly competent leader who can induce the trust
and cooperation of the citizenry in solving them. This kind of leader will require the spirit of flexibility, openness, self sacrifice, discipline and accountability that genuine participation demands on the political and governance process for genuine success to be attained. It is only through this form of leadership that the root of democracy will be deepened and its rich fruits can be harvested and accessed by all in the polity.

We have to provoke leaders to think the unthinkable, a lot more often; and character and structure have to interact productively to achieve this. The leaders we need now will have the perspective, the mentality, the confidence, and the authority to call for radical changes in direction.

References


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