Leadership in crisis – where are the heroes?

In a globalised world dominated by financial woes, where are the leaders who will be our salvation? Three INSEAD professors give their views on the problems these leaders face and why they may be failing.

Riots in the Middle East and in such unlikely places as the UK - encompassing not just the downtrodden but the frustrated and the middle class. Recurring debt crises within the European Union (EU) that call into question not just the Euro but the European Union itself. U.S. President Barak Obama’s economic management under ceaseless fire, while economists and investors alike are hard-pressed to find any benefit from the Federal Reserve’s multibillion-dollar quantitative easing policy.

Morrison, claims Obama’s “impotence is based on his unbending ideology, hypocrisy and lack of courage. He also talks too much and doesn’t deliver on his promises. The Fed’s decision to leave rates unchanged is a reflection of reality. They have few options left and hence their perceived power has also been reduced”.

But with America’s political camps more divided than ever as a result of the debt ceiling battle in Congress, can any U.S. leader be expected to drive change? “Yes, but it will take a leader who can meet both camps on the middle,” says Morrison. “This will require a president who is prepared to be unpopular for a while, and who might not get re-elected. The problem in the United States is that the primary electoral process promotes candidates who are further to the extreme than the public would support in a general election. Also, there is such visceral hatred of Barak Obama on the right that they will vehemently oppose a more centrist candidate among their ranks (think Romney or Huntsman). So, I am not optimistic. If we have a Tea Party candidate on the right who is elected president, the only way he can govern effectively is if he has full support from like-minded majorities in both the House and Senate. If this doesn’t happen, then we are back to divided government and stalemate (in Washington).”

Visit INSEAD Knowledge
http://knowledge.insead.edu
Ill-timed ideology

INSEAD Professor of Management Practice, Stewart Black, whose research expertise includes globalisation, leadership and strategy, says Obama “views government as the great actor and viewed the reform of health care as 100 years overdue and as a once-in-a-generation opportunity for government to enact the changes he thought were needed”. As a consequence, he misread or ignored the economic signals and put his focus on something that was not wrong per se, but was wrong for the times. “This is success of ego-driven or ideology-driven leadership that was successful in the wrong situation at the wrong time, and therefore in the end did not work,” says Black. “Fundamentally, the leadership agenda has to match the contextual situation for long-term success. This is one of the greatest skills of a leader - to put ego aside and look at the situation and match the leadership agenda to it.”

INSEAD Professor of Political Science, Douglas Webber, whose areas of expertise include the EU and international political analysis, says what the world is witnessing is not the failure of leadership or policies in one country or another, but “a crisis of collective international leadership”.

“As the world economy has become more interdependent, crises can be managed effectively only through co-ordinated international action – that was true already in the 1970s (when the G7 was created), it is all the more true now,” Webber says. “However, the current crisis coincides with a crisis of the world’s multilateral institutions – the UN Climate Change Framework, G7-G20, World Trade Organisation, etc. This crisis of multilateralism in turn reflects a rapid trend towards a multipolar world, in which not just the interests of the North Atlantic states and Japan have to be accommodated, but also those of China, India, other BRIC countries and so on. Other things being equal, the more diverse the interests that have to be accommodated in these organisations, the more difficult it is for them to agree on anything.”

Looking for a way out

Morrison, whose areas of research include global leadership and strategy, says at times of great stress and uncertainty the people of the world look to their
leaders for inspiration and a “way out”.

“Today, the world is facing serious, although not unprecedented, challenges,” he says. “The conflicts are ideological and because of this, compromise is difficult. While we may have strong leaders in each “camp”, the public is looking for leaders who can bridge the divide. There are few who have risen to the challenge. Unless you can meet somewhere in the middle through persuasiveness and compromise, there are few options.”

The reasons for a lack of brilliance in policymaking may also be a lack of weapons left in arsenals to address new crisis fronts, says Webber. “Policymakers have used up almost all their ammunition addressing the 2008-09 financial crisis. Private financial-sector debts have been socialised on a massive scale, leading to sky-rocketing public deficits that cannot be allowed to spiral completely out of control,” he says. “In the 1930s, deficit-spending policies became possible because Keynesian economics provided an intellectual rationale for them and, owing to the budget-balancing policies that had actually exacerbated the depression, governments could start with a fresh slate, i.e. no or very low levels of public indebtedness. This is no longer the case today. Individual countries can of course try to boost growth by increasing exports, as Germany, for example, typically does – but obviously not all countries can do this and there is a risk that ‘beggar-thy-neighbour’ policies could provoke a general relapse into protectionism that would make the current crisis even worse.”

Webber says institutional structures both in the United States and European Union make it difficult for either to act quickly and decisively in the face of crises precipitated by fast-changing financial markets. In the divided American system of government, President Obama is constrained in what he can do by a hostile majority in the House of Representatives. EU decision-making rules and norms require in effect that all member governments be brought on board before decisions can be made. Radical policies and changes of direction are not feasible on either side of the Atlantic. “A kind of 21st century Thatcherism is not politically feasible in Washington or Brussels – in both places political leadership requires the building of a wide consensus.”

Webber believes that in the absence of a consensus as to how to manage the crisis among the EU member states and other EU organs, the European Central Bank has actually done very well. By buying bonds from Euro zone debtor states, it has helped to stave off a collapse of the Euro zone, giving political leaders more time to develop a more sustainable solution to the crisis.

EU lacking unity?

Morrison argues the EU is saddled by the lack of unifying powerful institutions that would provide the levers of power to enable it to be more effective. “In the long run, there are two options for the Euro zone: strengthen central institutions thereby increasing unity; or abandon the Euro. My view is the latter will take place.”

Black points out that European leaders have from the start wished for more integration than was ever likely going to be possible. The linguistic and cultural divides between and among many of the core EU countries and the political separation and independent control of key economic levers meant that it was just a matter of time before certain countries, like Greece, ended up with serious problems that affected the whole, he says. “In this case, if you build a system based on flawed assumptions, you create a situation of such size and strength that virtually no leader, regardless of drive and skill, can conquer because the power base they start from does not match the power source of the system.”

According to Webber, the Euro zone’s difficulties have three fundamental causes: Divergent conjunctural trends and levels of economic performance between member states (especially between ‘Northern’ and ‘Southern’ Europe); the absence or weakness of a common European identity that would legitimise financial transfers from richer to poorer states (in the same way that West Germany supported former East Germany after reunification); and the absence or weakness of European rules to co-ordinate fiscal in addition to monetary policy.

Webber says the post-2008 financial crisis hit the Euro zone without its having, or before it had, the instruments to manage this kind of crisis – so that these had to be fashioned on the run, in a consensually-oriented political process that cannot move nearly as fast as international financial markets. He says, however, the Euro zone can survive “if EU elites manage to retain control of events (i.e., they are not completely overwhelmed by financial market panics or by popular protests against EU-administered austerity in the Euro zone debtor states)”.

Webber sees Germany as the key player, where he says an essentially pro-European political elite that recognises Germany has a strong economic and political stake in European integration is confronted by a growing wave of public opposition to the bailing-out of the debtor states, especially Greece. “As the next German government will likely be a ‘red-green’ coalition of parties that is more strongly pro-European than the parties presently in power,
there is a prospect that there will be a government in Berlin in 2013 that will be able to act more decisively on European issues than the Merkel administration.

**Euro zone needs glue**

“As Germany alone cannot hold the Euro zone together, French support for the Euro (these two countries account for almost 50 per cent of Euroland GDP), is also necessary. As in the past and as on other issues, there is a good chance that Franco-German co-operation will keep the Euro zone afloat.”

Enter two more leaders rendered seemingly ineffective either by their own domestic political processes, or by external EU-wide institutional restrictions they have no power over, or both. “Merkel and Sarkozy do not get on at all well personally. They frequently have different views or preferences on critical issues,” Webber observes. “Both, like past French and German leaders, feel constrained to subordinate these to the overriding goal of maintaining a strong Franco-German relationship, in the knowledge that without some kind of Franco-German accord or compromise, the EU will be politically paralysed. For France, the EU is important because it is through the EU that it can contain and influence Germany; for Germany, the EU is important because it institutionalises its firms’ access to a large European market that remains critical for German prosperity and, even more so, because it assuages fears of German domination that exist among other European states and helps preempt the danger of Germany’s diplomatic isolation.”

So with financial events in some cases surpassing the abilities or mandates of large institutions as the impact of truly globalised markets takes hold in the midst of a debt crisis, and with the world’s most powerful political leaders often constrained by their own domestic processes and/or social upheavals as a result of the crisis, could any leader hope to do any better? As with peacetime and wartime, are different kinds of leaders required?

“The observation that certain kinds of leaders are great for certain situations goes back millennia,” says Morrison. “The problem today is: because of the depth of the problems we are facing, we want “strong” leaders; and strong leaders are by their nature not as prone to compromise. What we really need today are political leaders who are strong of character, skilled at making “deals” and who are self-sacrificing. These leaders will be the ones who are best at compromising and building unity. The question is whether the public will see this, or whether they will elect strong ideologues?”

Webber says the current political leaders are no worse or better than their predecessors. “They may occasionally look worse – because they are dealing with complex issues that no single government can manage and resolve by itself, to which there are no longer any simple or easy solutions, and which, under conditions of international capital mobility, are extremely volatile. That said, the world could certainly do right now with more leaders who are simultaneously: 1) intelligent and politically, diplomatically and economically literate; 2) effective managers, negotiators and communicators; and 3) pedagogically skillful, in the sense that they can explain complex phenomena and convince a mass audience that they’re headed in the right direction.

“Alas, such leaders are rare and they don’t always emerge at the time when they are most needed.”

Find article at https://knowledge.insead.edu/leadership-management/leadership-in-crisis-where-are-the-heroes-984

Download the Knowledge app for free

Visit INSEAD Knowledge
http://knowledge.insead.edu