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LEADERSHIP AND DECISION MAKING IN CRISIS IN THE GLOBAL ERA: HOW LEADERSHIP NOWADAYS CAN ENCOURAGE THE DEVELOPMENT OF BUSINESS?

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Abstract

Leadership and decision making processes shape, influence and develop companies to gain competitive advantage, be profitable, promote sustainability and ultimately develop business. In the wake of globalisation, business are more susceptible to financial, legal, political, environmental, social and economic crises due to external and internal forces within and outside companies. The main objective of the research paper was to critically analyse the statement '*Leadership & decision making in crisis in the global era: how leadership nowadays can encourage the development of business?*'. An overview of leadership and decision making models applied in organizations are presented outlining challenges and issues that hinder business development. The study explores on the issues that might cause crisis in organizations and make leaders' decision making process more difficult. Moreover, it elaborates on the actions and the skills that a leader nowadays must acquire with the ultimate purpose to avoid future mistakes and develop organisations. A qualitative research methodology is applied based on critical literature review. The study concludes that the crises facing business discredit the current leadership practice, however they also provide a platform to formulate new paradigms to develop business.

Keywords: Crisis, Leadership, Decision Making, Business

JEL Classification: M0

Introduction

Global emergencies necessitate the need for great leadership and decision making capacity for businesses in the globalisation era. There has been a tremendous shift in the global balance of power, resources, trends and issues that require great leadership and decision making capacity to shape businesses into profitable, sustainable and competitive entities (Rawlinson, 2009). In the face of rising global crises, leaders are often required to make decisions under extreme uncertainty with limited time and resources in business organisations. These crises usually extend beyond the existing forces of current knowledge, understanding, culture, and political climate; they give rise to new context of leadership (Barton, Grant and Horn, 2012).

As Zhang, Jia and Gu (2012), support, crisis and leadership are two coordinates which are closely and directly correlated. A leader is the one who can make a difference through his/her way of leadership during a crisis situation. While he/she tries to adopt new innovative solutions and procedures during a crisis, a good leader can discover also several other weaknesses of the organization which need to be amended and improved. According to Germano (2010), "leadership has a direct cause and effect relationship upon organizations and their success".

However, leaders have to keep in mind that breakdowns and collapses of organisations do not occur in a very short period, but they evolve over time (Roberto, 2009). As the time passes by, the tiny problems tend to become into bigger and more important ones (ibid.). A good leader cannot ignore these little problems and pay no attention to them, because they may become the root for the most significant and serious problems that can threaten dangerously an organisation and its performance and reputation. As Ivanescu states, "speed matters, and time is a leader's enemy in a crisis" (2011: p.38).

What is crisis in the context of globalization era?

Globalisation is a new level of the development of the human society which consists of the economic, social and political dimensions. Primarily, it is viewed as an economic phenomenon, but theorists in various scientific fields argue that it is also is a complex cultural process, which triggers a fundamental restructuring of the human life in virtual spaces in the post-modern world (Mezulánik, 1999). The significant emergence of globalisation has fuelled business organisations from various sectors to sharpen their forces to gain

sustainable competitive advantage and remain profitable. Today we are living in the era of globalisation when the main resource of the business development is leadership in addition to capital, natural resources, people and knowledge. There is a huge gap in the leadership and decision-making arena when it comes to business development during crisis (Krikštaponytė and Valantiniene, 2004).

Crisis can be defined as a situation of extreme danger or a critical point of decision which if not handled in an appropriate and timely manner, it has the potential to turn create a disaster in a business organisation (Business-D, 2014). A crisis is usually characterized by a high degree of instability, ambiguity, unusual circumstances, limited time, the need for immediate action, uncertainty and carries the potential for extremely negative results that can endanger the success of the organisation. It is a turning point that could deviate a company from its initial plans, to replace stability with chaos. Depending on the degree of severity, a crisis can have tremendous impact on the business' leadership, workforce, profitability, competitiveness, sustainability, stakeholders and durability (Klaan, 2003).

In the wake of globalisation, businesses are more susceptible to financial, legal, political, environmental, social and economic crises due to external or internal forces within the companies (illustrated by figure 1). The interconnectedness of the global economy, politics and social realities can amplify the ripple effect of any single crisis in a business. Examples of some of the most common crisis in the businesses across the globe include the following: international financial crisis, natural disasters, workforce strikes, hostile takeover, and lawsuits. A crisis affecting one organization can, among other things, cause layoffs and closings among the suppliers, customers, and partners of the organization (Klann, 2003).

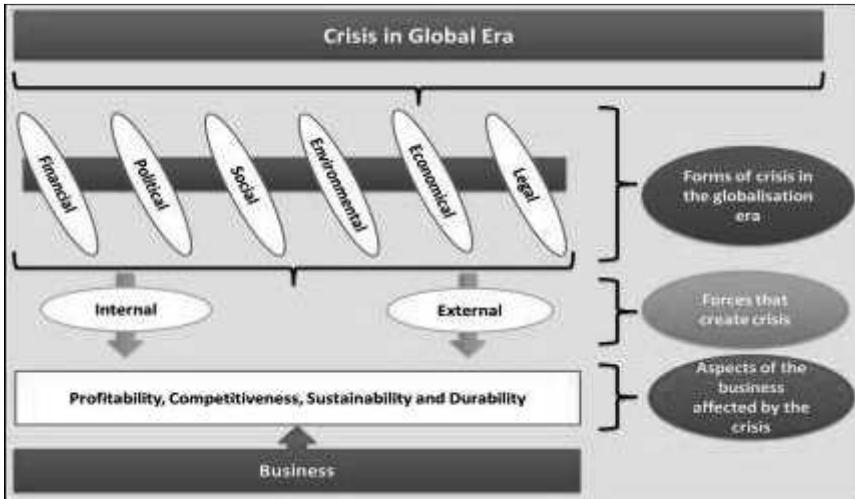


Figure 1: Impact of crisis dimensions on the development of business (Rawlinson, 2009 and Mezuláník, 1999).

Given these pressures, the demands of a leaderships and decision making in crisis are unique and require a different set of abilities than the one expected in a non-crisis situations (Woolen and James, 2011). Multiple crises happening in the globalisation era are discrediting the leadership, management practices, and decision making capacity of institutions and businesses, triggering a wave of thinking and experimentation about what could and should replace them. They necessitate the need to re-evaluate the current leadership and decision making styles, models, and trends (Rawlinson, 2009).

Leadership context in the globalization era

Leadership is the process of influencing, empowering, motivating and challenging a group of people to achieve a particular objective in an organisation (Howieson, 2014). There are various aspects of leadership used in business organisations depending on its structure, workforces, demographics, nature of operation and so on. Figure 2 shows different aspects of leadership, namely: leadership models (theories on how to lead effectively); leadership philosophies (value-based ideologies of how a leader should act and the sources of his/her power); and leadership styles (ways in which real life leaders behave) (Chapman and Scouller, 2005).

These aspects of leadership provide a fundamental base or overview to analyse the role of leadership in globalisation era. The current and past experiences and challenges the businesses have proved that the current leadership aspects are not adequate to help business leaders to lead organisations effectively. There are certain limitations and barriers embedded in the current leadership models, philosophies and styles that make them fail at developing businesses in the face of crisis in the global era. Most of them fail to account for ambiguous, uncertain and risky situations faced by business during a crisis (Chapman and Scouller, 2005).

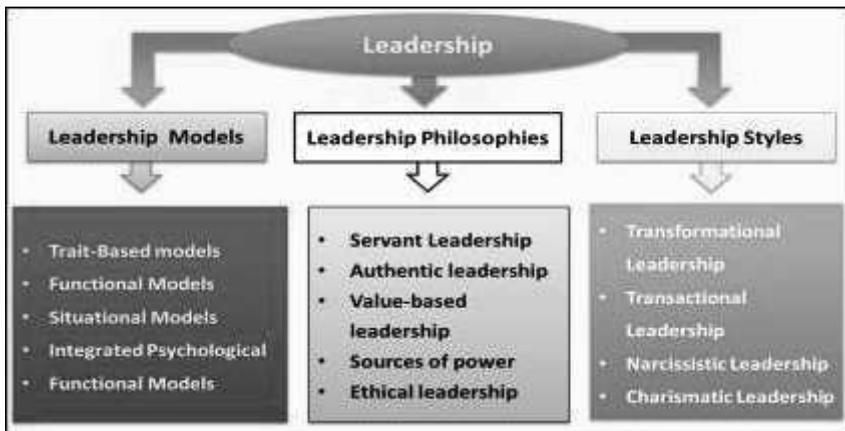


Figure 2: Aspects of leadership - models, philosophies and styles (Chapman and Scouller, 2005).

The capacity of an individual to influence a group of people under extreme pressure is called ‘crisis leadership’. Crisis leadership is an important social construct in a business because in its absence, stakeholders will be adversely affected by the crisis and cannot effectively recover from the damaging event. It is about building a foundation of trust within and outside the business with stakeholders. It’s a continuous process that creates a platform for a business organisation to blossom in ways that might not have been possible during a crisis (Woolen and James, 2011).

Crises potentially create significant opportunities for business organisations, depending on how they are perceived, interpreted and managed by leaders. Perceiving a crisis as an opportunity requires leaders to enact a radical vision that encourages their followers in a business organisation to evaluate the strength of the company and its environment and these strengths as resources. This should be supported by organizational culture that promotes

collaborative effort among employees in a company. Turning a crisis into an opportunity may also involve re-adjusting certain roles, restructuring business process and being innovative (Woolen and James, 2011).

What may causes a crisis situation and what complicates the acts of leaders in such situations

Corporate Downsizing

The dreadful global financial pressures have lead to massive changes on organizations, mostly with negative results (Javitch, 2009). Businesses due to the financial crisis are downsizing, rightsizing and capsizing (ibid.). It is now generally accepted that layoff and downsizing are common during economic recession; and that companies have different ways in the reduction of their workforce (Cavaiola & Colford, 2010). Downsizing has become one the most prevalent phenomenon worldwide (Stevens, 2014; Cavaiola & Colford, 2010).

However, downsizing not necessarily lead to greater production (Kim, 2003; Sears, 2008). Moreover, it increases the workload and creates higher job stress to the 'survivors' of corporate downsizing (Kim, 2003; Leana & Feldman, 1992 in Cavaiola & Colford, 2010). Through downsizing generated also a phenomenon, the "survivors' syndrome" (Kim, 2003; Noer, 1993) where survivors feel guilt and sympathy towards layoff victims (Bravanec, 2006; Amundson et al., 2004; Kim, 2003); and they characterized by lower moral (Chadwick et al., 2004; Amundson et al., 2004; Armstrong-Stassen, 1993). Furthermore, several researches support that downsizing negatively influences job satisfaction, failure to cooperate and commitment among employees and minimizes survivors' job security (Calderone, 2004; Chadwick et al., 2004; Cambell, 2000; Cole, 1993; Mohrman & Mohrman, 1983).

Problems' Recognition

As is known one of the most important characteristics of an effective leader is the problem-solving ability. Leaders must have the ability to recognize and solve problems, that happen in the work environment, through creative and logical ways (Parker & Begnaud, 2004; Junarso, 2009; Mumford, 2000). However, in practice numerous/a large number of leaders do not even identify they have a problem from the early stages (Myatt, 2013). They only recognize it when they asked by the media to comment on it, leadership teams are broken, valued workforce seek employment in a competitive company, market share is

reached the bottom line, a product becomes outdated, or the brand falls into recession (ibid.).

Pressure

Leading during crisis is not an easy issue. The explanation for this according to Brown (2009) and Ivanescu (2011), is that leading under normal conditions and a period of economic development and expansion is far different from leading under a period of uncertainty and recession. In fact, crisis creates pressure, anxiety and confusion to leaders (Boin, 2005; Klann, 2003). Some leaders feel less comfortable to make decisions under pressure. Their personality and style might prepare them to consider certain sides of a problem and therefore before making a decision they use extensive analysis, multiple source of advice and extensive consultation among advisers (Boin, 2005). On the other hand, leaders who fear that their decisions can disappoint or harm others, who are afraid the failure or who became paralyzed in the fact that they will take a decision under conflicting advice, "experience crisis decision making as an excruciating predicament" (Boin, 2005: p.44).

Wrong Actions

Furthermore, the danger in situations such as a financial crisis is that leaders could act wrongly. In many cases they attempt to resolve the current problems of the organization with short-term solutions, such as, constricted controls, restructuring plans and horizontal cuts (Ivanescu, 2011). As the president of the Committee for a Responsible Federal Budget (CRFB), Maya MacGuineas, stated in Financial Times (FT), jumping from one crisis to another with short-term solutions is not going to change the current economic situation (2013). Additionally, leaders frequently try to resolve the wrong problems. Sometimes the reason is for lack perspective or understanding that they may have (Myatt, 2013). Nevertheless, other leaders often avoid the hard and complex problems as a crisis generate, in order to increase their good looking as decision makers by solving the simple ones (ibid.). Therefore, an organization that depends solely on the decisions of its senior manager on the challenges it faces, it is more likely to fail. That risk of failure increases in the case where the leader does not draw the appropriate conclusion to recover the economic downturn (Ivanescu, 2011).

Indeed, in reality financial crisis could create misleading perceptions of short-run economic improvements. Possible disasters will occurred whether leaders are deluded by the apparent recovery of the economic decline

(Ivanescu, 2011). Though, mistakes by leaders are understandable due to that no one has not faced such circumstances in the past, the harsh reality is that we need both insight and courage to tackle the really crucial challenges and a huge number of leaders simply lack one or both (Ivanescu, 2011; Myatt, 2013).

Lack of Leadership

Another major obstacle to post-crisis recovery is the lack of leadership. It is not a concern just in the United States but also in Europe and for all the global community (Hemerijck, 2009; Myatt, 2013). Indeed, the lack of grand ideas by leaders and the lack of visionary leaders are serious concerns particularly in Europe (Hemerijck, 2009). Furthermore, many leaders suffer from lack of insight. In terms of significant leadership challenges, many are those who do not achieve positive change. Lack insight is an important drawback which if combined with an inefficient, rigid and ill-disciplined leader, can be a reason to bear crisis (Baroutas, 2011). Additionally, the lack of leaders' efficiency often caused by their failure to filter the problems through the 'lens' of leadership (Myatt, 2013). Societies are still in the need of hope and change; and generally, the world is still in a crisis of leadership. As Myatt (2013) observed, the issue is just that societies have forgotten how leadership looks like.

How leaders in today's situations can change the organisations' development

While many leaders think that they are 'bold business leaders', something is changed in the business world. Thus, may it is the time to change something on leadership as well. The art of effective leadership in today's situations comprises the correct coordination of the anticipated conflict and confusion of change so that certain changes are productive and not destructive for organisations (Ivanescu, 2011; Heifetz et al., 2009). Therefore, for a leader in a time of financial crisis, has to be innovative and transformative, not to fall into despair because organizations will be in a harder situation to transfer from the current recession with any hope of future growth (Brown, 2009).

Change leadership style

As Alvin Toffler stated, it is incorrect to believe that a leadership style which functioned in the past could also operate effectively in today's situation and probably less in the future (in Parker & Begnaud, 2004). Indeed, one major result of the financial crisis is the need for a new leadership style. Since 2008,

the reputation of the leadership practices of organisations has been widely harmed (Ivanescu, 2011).

According to Bass (1990) and Boin and Hart (2003), crisis is a 'double-edged sword' and both providing the opportunity for transformational leaders to evidence leadership effectiveness; and increasing the likelihood that leaders should be marginalized if they cannot respond timely in a crisis and motivate followers to obey their mandates effectively and efficiently.

In transactions leadership the relationship between leader and followers is based on a series of exchanges or bargains in order to satisfy their today's needs (Howell and Avolio 1993). On the other hand, transformational leadership abstain from the traditional model of exchanging inducements in order to reach a desired performance by developing, intellectually stimulating, motivating and inspiring employees to change their personal values to a high degree and look beyond their self-interest for the prosperity of the group and the organisation (Bass, 1990; Howell and Avolio 1993; Jung et al., 2009). This is particularly correct in situations where there is a significant crisis, which threatens company's viability and that is characterized by vagueness (Pearson and Clair, 1998). Given that in transformational style of leadership leaders empower followers, possibly they can draw on the collective intelligence of their followers and seek to create novel solutions to treat a crisis (Shadraconis, 2013).

Additionally, Zhang, Jia and Gu support that there are two main characteristics during crisis demonstrating the necessity of transformational leadership. The first is the chaotic which needs transformational leaders "to reorganize all of the resources and reallocate the human capitals, in order to decrease the disorder degree". The second is the urgency which needs transformational leaders who used their "bird's eye view to make an encompassing evaluation toward the whole situation and take actions in a short period of time" (2012: p. 4087).

In crisis situations, transformational leadership "acts as an organisational paradigm shift; and it can challenge the status quo and usher organisations into new levels of success and integration" (Shadraconis, 2013: p. 11). Therefore, transformational leadership should be encouraged in order to have notable difference in the organisation's performance at all levels (Bass, 1990).

Change in the company's orientation

Nonetheless, in some cases, crises into the organisational environment caused due to the today's orientation that the organisation has. For example, Julie Gilbert, as a senior vice president at retailer Best Buy, saw an imminent crisis in the failure of the business to benefit from the higher participation of women in a male oriented world of consumer electronics. However, she thought that this would demand a step beyond an elegant marketing plan; and by making changes in the company's orientation, she managed to increase WOLF's revenues by \$4.4 billion (Heifetz et al., 2009, WOLF-Means-Business, 2012). Hence, companies who are running into such situations, sometimes would be suitable to change their orientation (Heifetz et al., 2009).

Series of actions

A leader at some point in his career certainly will come up to many difficulties and challenging moments. Nevertheless, leaders must follow the right paths, the correct procedures and decisions to achieve their goals successfully. Tom Brown (2009), in his article 'Leadership in challenging times', highlights a number of stages or steps which leaders have to follow in that challenging times. Firstly, whatever the situation is, first of all the leader, must not become affected negatively, but he/she has to perceive and accept things positively and optimistically. As Rob Goffee, Professor of Organizational Behaviour at London Business School also states, "Don't claim to know the future, but articulate a vision of the future" (in Brown, 2009: p. 38).

After being able to become an optimist, a leader can more easily accept changes. Undoubtedly, in an organization and everywhere, many changes can occur during the time (Brown, 2009). Serious changes, small or large, which can make a difference. Especially leaders, have to accept and love these changes in every field and try for themselves to adopt them straightforwardly. With this way, they can even achieve to persuade the employees of the organisation and the other staff to get used to these changes of any type (ibid.).

Furthermore, once more according to Tom Brown (2009), one other significant and essential element of leadership in complex times is the communication. Leaders have to communicate and share with the employees all their matters, thoughts and perceptions of any kind.

Important is also the fact that during a crisis in an organization, many positive elements can arise in any aspect. This can be explained through the fact that while the leader tries to find the proper and the most suitable solutions for the problems, at the same time he/she identifies other components that need to be strengthened (Brown, 2009).

Though these leadership skills will still be appropriate in the long-term, according to the Harvard Business Review "the adaptive phase of a crisis requires some new leadership practices" (Heifetz et al., 2009: p. 3). Senior managers in a today's world face two competing requirements. They must execute aiming to meet current challenges; and adjust what and how things get done to prosper in future's world. Furthermore, leaders need to develop future practices, while they excelling at current best practices (Ivanescu, 2011; Heifetz et al., 2009). As cited in the Harvard Business Review, Julie Gilbert supports that these dual tasks can be practiced not solely by leaders and senior managers, but also by employees who are not necessarily at the very top level of an organization (ibid.).

It is also important that, in a downturn leaders in spite of taking daring actions in the hope of developing the organisation rapidly, deciding the location of a new plant and who will be the new employees that will be recruited or expanding the corporation's activities into new regions; they have to manage profits instead of spending them, decide the next steps in order to reduce expensed, aim who employees are to be made redundant and make effective decisions aiming to recover the problems (Brown, 2009).

Leaders should encourage their followers but also inform them about the bad news and issues that organisation have to deal with, rather than providing only a picture layered with roses (Roberto, 2009). They hold meetings with their followers, tour various locations of the organisation and remind everyone that they are always on their side. However, problems often remain crucial in companies for several reasons. In fact, "bad news does not tend to rise to the top" (Roberto, 2009: p. xviii).

As Biery (2011) states, no leader and no organisation can find the right solutions all the time, a fact that the Harvard Business Review clearly acknowledged in the title of its April 2011 issue: "The Failure Issue". Leaders may not permanently solve most of their problems, but they can learn from their failures and deal with problems more effectively (Lipkin, 2013). As Lipkin correctly said, "you can't change what is already happened, but you can change what you do next" (2013: p. xiv).

Decision Making in Crisis in the Globalisation Era

Leaders across different levels of the company are often faced with the situation of making business decision in the midst of risk, uncertainty and ambiguity in the globalisation era. In the absences of crisis or external influence, organizational performances and choices reflect the decisions that have been made internally in the business. Decision-making is a primary function of management necessary in organizing, planning, directing, staffing and coordinating activities, people and resources in an organisation. Figure 3 depicts various forms of decision-making models, types of decisions, and decision makers's style.

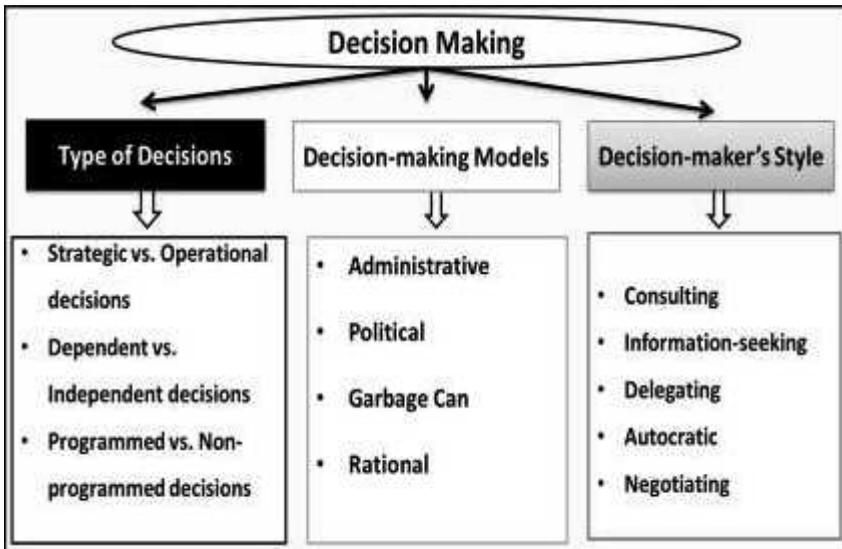


Figure 3: Overview of type of decisions, decision-making models and decision-maker's style (Fragouli, 2014).

Decisions made by leaders can create, manage and prevent a crisis in business organisations. Factors that determine which decision-making model, type of decision and decision-maker's style include the following factors: limiting features in cognition and affective processing; incomplete information; and social influences. It is because of some of these reasons the business organisations are facing multiple crises across the globe. Business organisations have routines, practices, processes, routines and cultures which condition how

challenges are defined, information flows, goals are set, options are specified, and ultimately, how decisions are made (Zimmerman, 2012).

In their extensive research work, Amos Tversky, Daniel Kahneman, and others scholars have described ways in which business leaders are likely to be biased when they make decisions in an organisation (Chugh, Bazerman and Milkman, 2008). Some leaders have the tendency to make decision that are dysfunctional and may lead to errors in judgment, for example, anchoring decision making process in one type of information that justify past choices (Woolen and James, 2011). Errors induced in the biased judgment can potentially lead to costly disaster and crises in organisations (Chugh, Bazerman and Milkman, 2008).

Most decision-makers tend to rely so much on their professional experiences, which is usually not an ideal structural approach, especially when the issues they are dealing with are unique and recent. Decisions are often made when the need occurs while experience shapes their perceptions, emotions frame their interpretations, and the context significantly influences their interpretations, predictions, and ascriptions. The structural approach used by some leaders to make decisions fail to take into account the complexity and uniqueness of some of the crisis (Zimmerman, 2012).

Overview, issues and challenges related to leadership and decision-making

Leaders make decisions to align goals, influence stakeholders and marshal resources in the company with a larger social and economic objective in mind. The role of leaders and the decision they make are influenced and affected by various internal and external factors. Internally they influenced by the strategy of the company, employees, organisational behavior, organizational structure, and operations management. Externally they are affected by the political climate, competitors, stakeholders, market conditions, legal framework governing business enteritis and their role and nature of decisions they make are intensified when in the presence of a crisis (Rawlinson, 2009 AND Zimmerman, 2012).

The ability of leaders to make sound and rapid decisions under pressure becomes a core competency for effectively handling a crisis in a business. Yet, the emotional responses to crisis and characteristics of a crisis itself (limited information, required action, time constraints and pressure for change) contribute to the difficulty of decision-making process. Leaders are more likely to engage in sound decision-making process when they have abundant

information and sufficient time to respond to a crisis (Woolen and James, 2011).

Various challenges that can potentially weaken the quality of decision-making and leadership capacity in the globalisation era include the following: intergenerational gap between leaders in an organisation; using incorrect leadership and decision-making models, styles and processes; infective communication channels; limited resources; and lack of organizational capacity to undertake certain tasks. Failure to identify, measure, manage and monitor challenges that shape a business organisation can be detrimental to the success leadership and ultimately, the success of the company (Gitsham, 2012 and Klann, 2003).

Effective leadership is usually highlighted by some kind of crisis that happens within or outside the company. There are two kinds of crises, the internal crises arise due to ineffective management of a business. The external crises are due to exterior forces that can potentially affect the company, for example the earthquakes in Japan or floods in Thailand affect business operating within those geographical regions. Academia, company development programmes and business courses seminars usually prepare leaders to deal with only internal crises. Recent school of thoughts in management suggest that leaders should be trained and equipped to deal also with external crises, where it is not the company strategy that is in question but the ability to figure out how to adapt it (Barton, Grant and Horn, 2012).

Crises test the deepest character of a leader by exposing his/her hidden strengths and core weaknesses. The role and purpose of a leader are magnified during a crisis. The anxiety, insecurity, and confusion generated by a crisis challenges the leader to think beyond the scope of their work and comfort zone in a business (Klann, 2003).

Dealing with crises, has become a key part of the role of modern leaders in business. In an age when crisis is the new normal, global organisations need leaders who are capable to act quickly and calmly during chaos. The emotional and physical stamina in addition to other personal attributes have become increasingly important for leaders (Barton, Grant and Horn, 2012). There should be development programmes in organisations that train leaders to be able to deal with chaos, complexity and pressure better (Barton, Grant and Horn, 2012).

The new horizon of leadership and decision-making in the globalisation era necessitate leaders to develop skills in areas that historically were not conventional part of the business leader's repertoire, such as: proactively leading change in organisations, building relationship with stakeholders, industry norms and government policy, engaging in multi-stakeholder collaboration with unconventional partners and so on (Gitsham, 2012).

The role and purpose of leaders in organisations need to be reframed to adopt a new perspective. Leadership styles, philosophies and models have to be re-engineered to accommodate to better equip and prepare leaders to deal with chaos, complexity and pressure generated by crisis in business development (Gitsham, 2012).

Conclusion

Organizations can achieve long-term success, profitability and sustainability by implementing a model of leadership that can mainly prevent the crisis while at the same time highlights and respects the needs of their organisational environment. As problem-finders, leaders at all levels must use their skills to the maximum extent. In so doing, they can take action in order to prevent the threats that could cause disaster for their company.

According to Roberto, "leaders cannot wait for the problems to come to them. The sooner leaders can identify and surface problems, the more likely they can prevent a major catastrophe. If leaders spot the threats early, they have more time to take corrective action" (2009: p. xviii). Related to this, it is enormously important the following assertion. "It is always saying that time is money, but at that time, it is more appropriate to say that time is life" (Zhang en al., 2012: p.4087).

Multiple crises happening in the global era are discrediting the leadership, management practices, and decision making capacity of institutions and businesses, triggering a wave of thinking and experimentation about what could and should replace them. Crises are becoming powerful catalysts for transformation in both theory and practice of leadership and decision making in business development. They necessitate the need to re-evaluate the current leadership and decision making styles, models, trends. Crises are becoming powerful catalysts for transformation in both theory and practice of leadership and decision making ideologies. Crises potentially create significant opportunities for business organisations, depending on how they are perceived, interpreted and managed by leaders. Turning a crisis into an opportunity

involves re-adjusting certain roles, restructuring business process and being innovative.

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