

# [Leadership and the economic crisis](https://assignbuster.com/leadership-and-the-economic-crisis/)

[Economics](https://assignbuster.com/essay-subjects/economics/)

Over the years, studies have been conducted regarding what model stands out as the best for organizationalleadership. The current global financial crisis has revealed quite a lot in as far as these leadership models are concerned. It has become apparent that the current models of leadership stand in need of adjustment. Every model of leadership seeks particular results. The fact that the world has been experiencing financial meltdown means that there is a real problem with regard to the leadership models currently in place.

Clawson (2009) sees the current crisis as having arisen as a result of poor leadership. While this is a fact, the paradigm shift that he proposes may be affected by the current crisis. This claim is predicated upon the fact that a change of whatever nature depends on a host of factors. Existing Context, Environment, and Conditions of Leadership and Organizations Regarding the current financial crisis, one question comes to mind: how did we get there? This is a question that has been answered in various ways depending on the various leadership points of view.

According to Clawson (2009), leadership is actually about management of energies. If this definition is anything to go by, the current environment is riddled with increasingly unsatisfied ‘ others. ’ In other words, companies have come up with strategies to reduce expenses, and this means that some of the benefits previously enjoyed by the employees are no longer forthcoming. As a matter of fact, several people have lost their jobs to this crisis. This has the effect of de-motivating those that remain.

It becomes even more challenging to manage the energy of the workers who are already de-motivated. In the diamond model of leadership, which includes: Leaders, others, organization, and task, each element has to be efficiently managed if the expected results are to be realized. As it were, leaders have to work harder than ever now in order to realize thegoalsof each organization. It is a recognizable fact that the banks, among other players, have had a very important role to play in the proliferation of the current economic crisis.

The major problems resulting from the current crisis are: bankruptcy of financial institutions, an excess of toxic debts, credit market freeze, as well as declining stock markets. While everyone recognizes the importance of a paradigm shift from the normal way of operation in order to arrest the situation, the current crisis offers no break from the challenges it presents. Various governments across the world have established certain legal frameworks with the aim of establishing standards of operation in a bid to stop future crisis.

The challenges that have been brought about by the current crisis are undoubtedly of great magnitude. This report considers three major issues that are likely to prove challenging to leaders and organizations over the next few years. These issues are seen as having played a role in the current financial crisis. They include: Lack of efficient and intelligent downsizing, development of new and better ways of management and lack of staff retention, as well as effective pay structures.

Efficient and Intelligent Downsizing- The tough economic times have forced leaders to come up with several management strategies. Downsizing appears to have been one of the strategies preferred by several organizations. (Gyu-Chang, 2009) However, this remains a major challenge for leaders and organizations. This is because downsizing has the effect of staff demoralization. The human resource leaders are yet to prove that downsizing has a certain commercial value. As a matter of fact, there has been a lot of doubt as to whether these leaders have the necessary authority in as far as this process is concerned.

(Jaworski, 2008) According to a study conducted in Korea in 2009 on two hundred and fifty eight listed Korean firms, it was established that downsizing had a more severe impact on firms that had experienced a downward trend. These firms also tended to suffer greaterfinancial difficultiesas compared to their counterparts. It was further established that when implemented proactively, downsizing had a positive effect, as opposed to firms that implemented this strategy as a reaction to financial problems.

This means that leaders and organization will have a lot of challenges in as far as this strategy is concerned, because a great number of firms worldwide suffered serious financial loss, which requires them to downsize. It remains to be seen how leaders intend to do this without negatively affecting the profitability of their organizations. Pay Structure- the crisis presented leaders as well as organizations with a challenge that calls for constant re-focusing, namely the compensation structure. Generally, there are those who believe that the poor performance witnessed over the past few years has been as a result of short-term pay deals.

This is thought to have encouraged various employees to engage in risk-taking behavior. This will undoubtedly remain an issue in the next few years, considering that there has been a lot of pressure on leaders from various quarters to review the various remuneration regimes. The reason why this is a challenge for leaders is that when the current crisis is put into consideration, one realizes that long term remuneration deals are not likely to be the best choice for many organizations, especially with a negative financial trend.

In some countries, especially in Europe, various governments have set in place very complex regulatory regimes respecting pay. There still remains some doubt as to whether there will be any substantial changes in as far as the pay deals are concerned. A Human Resource leader at a certain investment bank was quoted saying that he expected that in only three years after the crisis, the bonus levels would go back to the levels that had been witnessed in the year 2007.

These pose a serious challenge to human resource leaders in their attempt to make the necessary adjustments. How to implement these requirements without necessarily compromising organizational strategies will remain a major challenge. Development of better ways of management and staff retention- in the attempt to save various organizations from collapse, various governments came up with bail out strategies. This intervention by the government means that both the government and the tax payers are keen on the ways these organizations are managed.

This means that these organizations may not be able to remunerate their employees in ways they did before, due to the fear of reaction from these circles. The danger in this case is that good employees may be snapped up by organizations that do not operate within the same setting. At the same time, the appeal that once was, is no longer there for ambitious graduates. Since it is apparent that remuneration is no longer the major motivator, the leaders have the challenge of designing new ways of attracting, engaging and retaining employees.