Business Leadership and Risk Management

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ABSTRACT: Leadership as we know it has changed, with deeper engagement necessary for the engagement of employees. Autocratic power exercised by leaders has diminished in the knowledge economy, where employees hold the knowledge capital of the organisation, engaging at a deeper level helps in leadership. Leadership by directing is gone, and this has been replaced by leadership by engagement. The leadership styles that are most popular – transactional and transformational are discussed, and it is observed that the latter style is more effective in the post-modern era. As leaders are decision makers, the efficacy of making decisions that are suitable or beneficial to most of the followers is viewed as a success criterion. Therefore, leaders must develop a plan to reduce information asymmetry within organisations and develop a consultative and participative system of generating opinions when making decisions. Such approaches help the leader in mitigating the risks involved in analysing diverse ideas and also by taking people into confidence of the constraints that are there in the decision to be made.

KEYWORDS: Leadership, Risk, Morden theory, Transformational, Participatory.

1 INTRODUCTION

We live in the Post Modern Era, dominated by the themes of pluralism, non-objectivity, cynicism and community oriented interpretation of the environment (Green, 2007). In this era, the traditional organisation is at risk. Every employee is a potential cynic and interprets the environment based on his sentiments and perceptions and understands that there are multiple perspectives on every situation. In this state, it is important for leaders to adopt a deeper meaning of leadership, over the simplistic explanations.

Leadership is crucial to organisational effectiveness, as leadership efficacy affects team success depends on knowledge sharing and facilitation (Zaccaro, 2003). The key determinants of leadership in today's context are encouraging participation in a common goal, delineation of personal goals over group objectives and engaging collaboration (Kavanagh & Ashkanasy, 2006). Such an approach calls for defining leadership:

2 LEADERSHIP AND RISK – A THEORY PERSPECTIVE

"The ability to influence a group toward the achievement of goals" (Robbins 2003, p.314) is the most pervasive and simple definition of leadership in general terms. Leadership is behaviour by individuals which shows purpose, indicates direction and meanings to the collective actions of a group of people (Hellriegel & Slocum, 1996, p.445; Rutter, 1995, p.27; Gill et al 2006; House, 1995, p. 415). The leader has to be able to unite the efforts of the members to achieve the set objectives. Therefore, leadership can enhance the effectiveness of groups and ultimately positively impact organisational effectiveness (Wang et al. 2005).

Modern theories of leadership focus on desisting from the use of force and engaging with followers and influencing them to draw their best potential in a group environment (Wang et al. 2005). According to Wang et al. (2005), influencing individuals involves more than just giving directions, but deep engagement at the perceptual and emotional levels of other individuals. There are different styles of leadership as postulated by postulated by theorists, but the most pervasive style comparisons across literature have been with respect to the transactive and transformational styles (Meyer & Botha, 2000).

A transactional leader governs through giving specific tasks and a system of rewards and punishments. When assigned a task, and if the individual completes the task, he is rewarded and is he does not, he is not rewarded. Such a leadership style makes employees task oriented and lead to enhanced productivity. Also, as the leader simplifies the objectives into simple tasks that are compartmentalised and workable at the individual level, the level of coordination needed between team members is low (Meyer & Botha, 2000).

In contrast, the transformational leader, leads to his charisma or inspiration and sets examples at a personal level to draw the best out of his team by influencing the emotions (Cable & Judge, 2003). Due to the post-modern themes dominating the culture today, the transformational leadership style is considered to be the most appropriate as it can help address the issue of appealing to the higher emotions and ideals of individuals. A leadership style that realises and tries to draw out the inner capabilities of the employee is crucial for success now. There is intellectual motivation through transformational leadership and when in this state of mind, there is empowerment and sensitivity on the part of the leader, the employee can realise his or her full potential (Bass & Avolio, 1990).

In this author's opinion, there can be no single correct style of leading people. Leaders have to play multiple roles. While a transformational leader can appeal to the emotional side of employees and stimulate intellectual motivation, a transactional leader keeps his employees motivated by material considerations. As employees work for the remuneration as the basis of employment, leaders must also focus on the material aspects of rewards and awards. Therefore, the leader has to be able to perform multiple roles in an organisational context to be successful.

Every leader has to make decisions, and such decisions affect the fortunes of every member of the group or the organisation depending on the scale and context of the decision. Therefore, a leader is a risk taker. How well a leader assesses the risks involved and how well the decisions adopt the risk levels to execution will determine the payoffs of every member of the group and the effectiveness of the leader (Ertac & Gurdal, 2012). The risks associated with the leadership decision is bound to generate criticism from subordinates as it may be deviating from their interests or what needed to be done in their perceptions.

It must also be observed that the information available to the leader may not be adequate to make the best decision possible and the leader may have to assume some information or make an optimal decision with the available information. This can create criticism as the information asymmetry as we go down organisational levels increases, and subordinates may not have the information available to the leader (Ertac et al. 2013). Therefore, how the leader mitigates the risk of the decision, and the mitigation of criticism or wrong perception among subordinates is necessary.

The risk of misperception of the risky decision and the decision can be in part eliminated by the transparency of the leader in disclosing as much information as possible for the consideration. In other words, reducing information symmetry that helps employees understand the situational constraints in the decision help reduce the risk of backlash among employees (Ertac et al. 2013)?

It also needs to be noted that participatory decision making can also help in mitigating risks associated, by incorporating the views of the people who might be affected by the decision (Ertac et al. 2013). In many circumstances, a leader may be able to take such feedback and in some circumstances may not be able to. The participatory decision-making process must be enabled by the organisational culture which allows leaders to use such a mechanism is important. In an autocratic culture, such a process for decision making may not be possible. But wherever this is employed, the risks associated with the decision are mitigated, and the decision making for the leader is simplified.

3 CONCLUSION

A leader is a bearer of risk, on behalf of others. He not only has to direct people and monitor inputs, but also makes decisions in the course of conducting business. The efficacy of the leadership is decided by the engagement levels of the employees that inspire them to contribute and behave above their personal agendas. As discussed, leadership efficacy decides the effectiveness of the organisation.

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