

The Leader's Prison



Robert Galavan

Do managers matter? The answer to this question is not as straight forward as we might initially think.

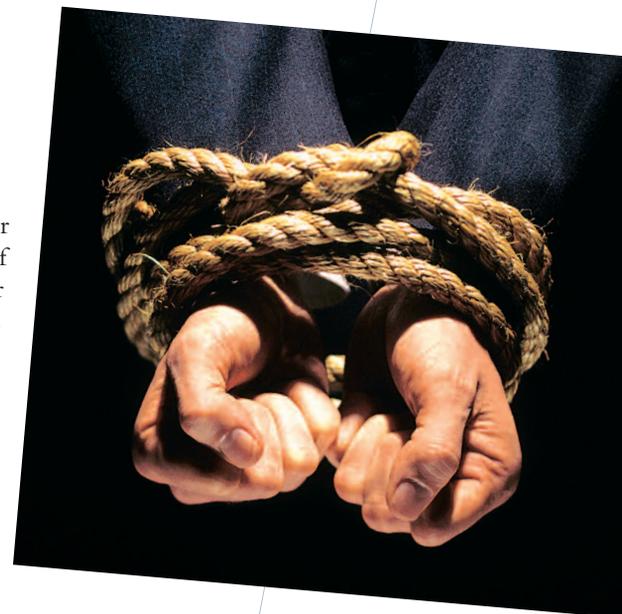
Dr Robert Galavan explains that both the operational environment and the organisation constrain its leader and how we need to be aware of these constraints on a leader's discretion.

Let's take it as a given that leaders matter to the performance of their organisations. Well, hold on a minute, let's not. Most if not all who read the first line will readily accept it. There is however, a well established – even if not well read by practitioners – school of thought that argues to the contrary. It says managers really don't matter very much. Proponents of this view, who are broadly categorised as population ecologists, take a somewhat Darwinian perspective, explaining organisation performance as a function of fit between the organisation and its environment. Organisations are, from this perspective, too large, slow, cumbersome, political, and socially embedded for mere managers to influence them much and so, if organisations find that they are a poor fit for their changing markets they simply die out and are replaced by a better fitted species.

Do managers matter? The answer to this question is not as straight forward as we might initially think.

The counter claim is that managers really do matter and that leaders can and do change the course of their organisations and so materially affect their performance. In this counter claim even leaders facing the most intractable of problems such as crime on city streets can and do make a difference. Take for example New York Mayor Rudolph Giuliani who is widely credited as having cleaned up the streets of New York in the 1990's. Surely if the tenuous powers of a city Mayor can be enacted to effectively lead the diverse and complex organisation of city bureaucrats and police, then the counter claim must win.

But, this would be to presume that it was in fact Giuliani or indeed any one in the city organisation that managed to reduce the crime rate in New York. At least one notable economist, the Harvard educated Stephen Levitt disagrees. He, controversially, offers an alternative explanation for the reduction of crime in New York in the 1990's as an effect of legalising abortion in the US in 1973. He posits that rather



... both the operational environment and the organisation constrain its leader.

than congratulating Giuliani for his efforts we can see that 'legalised abortion led to less unwantedness; unwantedness leads to high crime; legalised abortion, therefore, led to less crime'.

While this explanation may be viewed as morally outrageous, if it has even a semblance of truth then Giuliani's success in the war on crime is at least partly due to a change in his organisation's environment and not simply the result of his leadership. Taken in the extreme, he got lucky by being in the right place at the right time and took credit for the inevitable.

The risk in following the course of this argument is that we get caught in the rather academic and black and white argument of whether managers do or don't matter. A more pragmatic course is to perhaps try and understand the circumstances in which leaders have a greater or lesser effect. Phrased slightly differently, we are trying to understand the extent of the constraints on a leader's discretion. These constraints come in at least two forms, broadly speaking the operating environment and the organisation itself.



	Software	Forestry
Product commoditisation	Low	High
Demand stability	Low	High
Capital intensity	Low	High
Overall discretion	High	Low



Let us consider in the first instance the operating environment which, for commercial organisations, can usually be described by the industry. In some cases the industry will confer more discretion on a leader than in others. Take for example the differences between the software industry and the forestry industry. If we consider just three factors that affect the discretion afforded by these industries; product commoditisation, demand stability and capital intensity we can easily identify the software industry as a high discretion industry and forestry as a low discretion industry. The net effect is that managers in the software industry have a greater latitude of action and so firm performance in the software industry is relatively more affected by managers and less so by the industry conditions. In the case of the forestry industry in Ireland managers can do relatively little about the market price of logs and so are constrained in their actions. On this basis forestry managers are prisoners of their industry while software managers roam free.

The second form of discretion constraint is the organisation itself. Large organisations with limited slack resources and powerful cultures constrain their leader's discretion. We can see the effect of this on the print industry. Over the past two decades the market and the technology for printing has changed enormously. Many organisations built on craft traditions with powerful and longstanding union agreements were understandably slow to change. As the markets tightened, their slack resources dwindled making it even more difficult for them. Many of the firms that prospered in this phase were new start-ups, unencumbered by sunk capital, traditions and powerful cultures. These new organisations, operating in the same industry, provided the opportunities for their founders to build capabilities that met the emerging market needs, leaving their tradition encumbered predecessors imprisoned by their organisations.

Knowing whether an industry or an organisation, or both, give or constrain a leader's discretion should help us understand the circumstances in which managers matter most.

Knowing whether an industry or an organisation, or both, give or constrain a leader's discretion should help us understand the circumstances in which managers matter most and indeed, research would seem to bear this out. So on average, managers in high discretion contexts matter more than those in low discretion contexts. But 'on average' isn't much use when we need to consider a specific case. No organisation has an average leader. They have

What we can say for certain is that leaders do matter to their firm's performance, but most importantly, some leaders matter more than others. The question for you is which kind will you be.

real people who lead individual lives and while some industries undoubtedly have inherent constraints, sometimes the constraints are more in the minds of the industry leaders. Take for example the airline industry, an industry which in a few years in the 1980's lost more money than it had made in its entire history and almost repeated this remarkable feat post 9-11. Its lack of slack resources, capital intensity and, apart from infrequent shocks, demand stability, provided all of the characteristics of a low discretion industry. The rules of the game were well known and all organisations followed a similar pattern of competition with little variation. That was until Herb Kelleher brought low cost carriers to the fore in America with Southwest Airlines, followed in Europe by Michael O'Leary's Ryanair and subsequently Stelios Haji-Ioannou's easyJet.

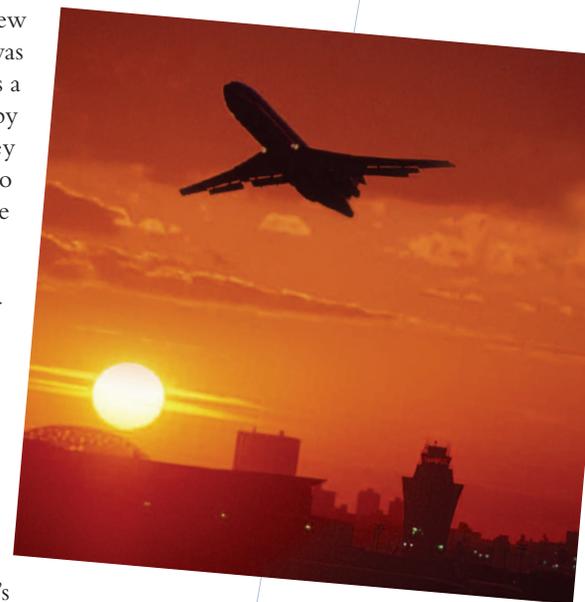
I remember, in the early days of Ryanair, a friend berating me for teaching that case study. I was told that they 'knew' the industry, as they had worked in it and that you couldn't fly planes at that cost. Luckily for O'Leary and the other LCC's it appears the whole industry knew that his model couldn't work and so they were left at it. Of course we know now that it does work and those three airlines alone account for most of the profits in the entire global airline industry. In time, imitation became the greatest form of flattery with BA setting up Go and KLM setting up Buzz to compete with these rapidly growing LCC's. So what did the leaders of Southwest, Ryanair and easyJet know about this industry that the incumbents didn't know? Did they have anything in common?

There is one answer to both questions – they each knew nothing about the airline industry (as it was). Keller was a practising lawyer, O'Leary an accountant and Stelios a serial entrepreneur. Rather than being imprisoned by their knowledge of the industry and the rules they couldn't break, they used their innovative capabilities to the full to find new ways of building the most profitable airlines of the 21st century.

Leaders are ultimately prison inmates of one kind or another. The only question is whether it is a high security or an open prison and the industry characteristics will often give us the answer. The difference between the leader's prison and the criminal's prison is that the leader's bars are often mental constraints and not physical. Leaders can break free of the bars by deciding to do just that – easy to say, difficult to perform I know. What we can say for certain is that leaders do matter to their firm's performance, but most importantly, some leaders matter more than others. The question for you is which kind will you be. In the final analysis it matters not whether you believe you can make a difference or not – either way you will be right! Think about it – then do something about it.

© Robert Galavan, 2006

Dr Robert Galavan has a distinguished research portfolio and was awarded the Directors Prize for the Best Doctoral Thesis by Cranfield University. Robert also received a Highly Commended Award in the EFMD/Emerald Publishing Outstanding Doctoral Research Awards and it was the top European thesis in its category.



Rather than being imprisoned by their knowledge of the industry and the rules they couldn't break, they used their innovative capabilities to the full to find new ways of building the most profitable airlines of the 21st century.