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'Enterprise and innovation are as much about people and culture as ideas. How can leadership help to harness entrepreneurship and innovation to combat the global recession?'

In an age of a new kind of individualism, one may wonder whether leadership has any role to play at all. We are told daily that traditional sources of authority are breaking down, that we are each now generators of ideas and information, sceptical of the 'old media', of the political class, and of the exhortations of leaders. This process is supposed to be inexorable, driven ever forward by information technology and, perhaps, by higher levels of education globally. If this is the case, then while it will still be possible to occupy positions of authority, the capacity to *lead*—to inspire, to persuade, to exemplify—will inevitably diminish.

However, this is not the only way of accounting for the breakdown of confidence in leadership, and it is arguably not the most convincing way. There are good reasons to think we are not witnessing the end of leadership, nor even a fundamental change in its nature. Rather, as this essay will argue, the circumstances surrounding the recession lay bare a grave flaw in the current order: the example presently set by those who lead can only be followed by a few, leaving the majority alienated and distant from leadership. The suggestion this essay will put forward is that leadership can unleash vast human potential if it can inspire people to achievement that is relevant in their own context, rather than primarily setting an example for a fortunate few; and that to do so, achievement must be associated with a variety of models of economic activity, rather than only one.

Building on the best

In the aftermath of the financial crisis, much public debate has been concentrated around the dissection and posthumous assessment of the faults of the old global financial arrangements. Blame has been laid, and palliatives suggested, largely at the level of national and international financial regulation. Less ink has been spilt, however, in examining other, equally fundamental questions. Why did some countries—Britain in particular—become so overly specialised in financial services as to render them more vulnerable? Why, during the economic boom of the past twenty years, were provisions not made to diversify the economy by investing in other sectors, which will now apparently carry some of the burden of weathering the recession?

One answer to this is that during good times, judgement is inevitably clouded. People become drunk with success, possessed by Keynes' 'animal spirits', and simply forget to set aside for the future. Policymakers in rich countries, then, were either themselves drunk, or constrained by an intoxicated populace. The same has happened repeatedly, we are told, since the cycle of boom and bust began.

But while this might go some way to explaining overzealous investment, it does not, in itself, account for overspecialisation in financial services. To explain this, we might make reference to a notion so obvious that it is ordinarily taken for granted: the notion of 'building on the best'. When investors seek to maximise their returns, they tend to invest in those sectors and regions with a demonstrably higher rate of return than others. An influx of investment brings further improvements, leading to further returns. In this way, investment becomes concentrated in areas where investments have already been made, leading to the growth of specialised economies.

There is no doubt that this way of doing business is highly effective for many purposes. Investment in concentrated urban industrial hubs has historically been more profitable than scattering factories throughout the countryside. Concentrating research and development firms in Silicon Valley led to important advantages. It is clear that we cannot do without the tactic of 'building on the best'.

However, this tactic brings with it disadvantages. When human and physical capital become tied up in increasingly circumscribed sectors, the capacity to adjust to crises is diminished, as evidenced by Britain's current difficulties. Moreover, there is a deeper problem. Without unlimited capital in any given year, building on the best means that something of the less-than-best must be neglected. In industrialising economies, this may be regions; in industrial economies, it may be industries. In the largely deindustrialised economies of the rich world, which now depend greatly on human capital, it is humans that must be neglected.

This neglect is felt both in the upper and the lower strata of society. At Oxford during the past decade, countless graduates in a wide range of fields saw employment in financial services as something to aspire to, irrespective of their particular talents. And more gravely, the recent boom years saw the growth of a new underclass, defined not by its occupational status but by its lack thereof. With an efficient and specialised engine of growth, many workers were simply not needed and swelled the ranks of the long-term unemployed.

Letting a hundred flowers bloom

Is this the inevitable price of growth and prosperity? In the years between the oil crisis of the 1970s and the present, the world experienced the dominance of an ideology according to which the only viable way to proceed was to stand back and allow capital to build on the best. If that ideology is to be believed, it may simply be the case that we cannot but allow inefficient sectors and redundant individuals to atrophy for the greater good of the economy. But in the wake of the crisis, that ideology is looking increasingly shaky.

There is, perhaps, a lesson to be drawn from an analogous process played out over the last thirty years in a society which has successfully escaped the stagnation induced by its own inflexible ideology. That society is mainland China. While the Chinese reforms are often portrayed in the West as the straightforward introduction of a rapacious, Dickensian form of capitalism, there is more to the story than this. For China has done more than simply introduce one form of capitalism. It has experimented with what may be the greatest and most diverse flowering of forms of ownership and institutional arrangements ever seen in the modern world, in what has been called an 'ownership revolution'. China's reformers learned from the failures of the Great Leap Forward, as well as those of Russian 'shock therapy', in which central directives of uniform solutions resulted in disaster. Instead, they allowed enterprises and communities to come to varying arrangements. A large proportion of firms privatised in China have been privatised into employee ownership, or into a mix of ownership by multiple stakeholders. Entrepreneurialism has been enabled through multiple channels—both through traditional businesses and through various forms of co-operative. Far from resulting in the natural selection of one type of ownership form over all others, the flowering of institutional arrangements does not seem to have abated. It may be that the lesson of the Chinese experience is that the promotion of a variety of ways of solving problems is more powerful than any single solution suggested by a fixed ideology.

The suggestive thought that follows from this is that there may be vast human potential in many communities which remains untapped simply because only a limited model of economic success has been put forward there. Members of the new underclass in the rich countries are not without resources; they have intimate local knowledge of their own needs and of the lives of those with whom they interact. There is undoubtedly wealth to be generated here—but it may be that this wealth is best generated by relying on untraditional forms of ownership and finance.

The trouble, however, is not only a lack of finance and a lack of broad political support for such experimentation, but a lack of cultural references from which to take a variety of views of economic achievement. We take our view of what it is to be successful from the environment in which we live. If that environment provides only one schema of success, such as the schema of generating wealth by building on the best, then only a minority will attempt to do otherwise. This is precisely where leadership has a crucial role to play.

Is leadership possible?

To return to the doubts expressed at the beginning of this essay, however, it might be argued that technological and cultural changes have rendered leaders incapable of playing this role. The very people who must be inspired to think creatively about addressing problems are, one might think, the least likely to be interested in the views of leaders. Any attempt to counteract this might then be expected to be seen as paternalistic and patronising.

However, there are good reasons to think that leadership is not on the way out. Decades of research in cognitive psychology suggest that humans, like other primates, have evolved to rely on cues provided by high-status or successful individuals to reduce their cognitive burden in the face of large amounts of information. That is, all else being equal, we often learn by using successful individuals in our environment as models—even if this learning takes place through broadcast media. Moreover, we use cues of salience, like headlines and celebrity mentions, to filter information down to manageable quantities. The bottom line here is that we are limited animals, and greater availability of information may be likely to lead to increased, rather than decreased, dependence on leaders and other trusted figures, as a natural way to filter and select messages and values

Nonetheless, even if we accept this argument, it is clear that something has changed about the way in which authority figures are viewed. Apathy and cynicism about politics has increased; trust in mainstream news sources, banks and other corporations has decreased. For large sections of the populations of many countries, the idea of a figure from the political establishment providing inspiration and leadership is now likely to be laughable.

This may be plausibly attributed, in part, to the increasing sophistication of large numbers of people. Educational levels have risen, and access to news and other media has expanded. However, for reasons already mentioned, it would be implausible to suggest that we might educate ourselves out of the limits which make us human, and which incline us to look for leadership. Why, then, have these changes taken place?

The futility of irrelevant examples

One answer to this question is that the very same diverse potential that is awaiting effective leadership is unable to respond to current overtures precisely because they address themselves only to a limited and inaccessible vision of human achievement. As the ideology of post-Keynesian capitalism has taken root, the boundaries of the realm of worthwhile economic achievement have become ever narrower. Necessarily, however, there could only be a limited number of successful members of the financial services industry and its relatives. The old notion of working class pride and industrial solidarity, which served as part of the compensation of industrial workers in past decades, disappeared in the rich countries with the disappearance of the industrial working class. When this notion of achievement slipped away, it left a vacuum that could not be filled in the new, overspecialised form of capitalism.

As the achievement of social status has become increasingly distant from either the reach or the genuine aspirations of many, political and economic leaders, inevitably associated with high social status, have failed to provide any alternative to the forms of success which are inaccessible to most. As a result, they, too, have grown increasingly distant from ordinary people. An individual who attempts to lead in an irrelevant and hopeless direction cannot but ultimately fail to lead.

Entrepreneurship and innovation

The hero of the twentieth century was a skilled and enthusiastic champion of a single way of doing things. In the West, he was the captain of industry; in the East, the model Communist worker. We now live in a time in which neither of these has proven sufficient. Each attempt to solve humanity's problems using a single model has produced great successes and spectacular failures. But this does not mean that the twenty-first century must not have any heroes at all. It is just possible that the hero of the twenty-first century will be the *social* entrepreneur—the individual capable of thinking beyond simply building on the best, to at times seeing the long term benefit of building on the worst.

If leadership is to survive, and to regain its popular legitimacy, it can only do so by grounding itself once again in the realities in which people live, and offering them a diversity of models of achievement commensurate to the diversity of characters and contexts inherent in globalised capitalism. Alternative visions of economic success must not remain the preserve of radicals and eccentrics; for it is clear that the dominant one, for all its strengths, cannot inspire everyone. Without inspiration, there can be no leadership. Without leadership toward lasting change, the social problems underlying the recession will remain with us long into the future.