

In The Thick of It Part Two: The Story Continues

Since early December 2008, Kevin Power and Andrew Day have been researching into how leaders and their organisations have been affected by the economic crisis and how they are responding. This second article builds on some of the early insights identified in the first report.

In December of last year, we started our research into how organisations are responding to the economic crisis. Our intention has been to talk to executives in large organisations, across different sectors, to obtain an insight into the experience of those at the top of organisations. Over the past three months, we have interviewed nearly 40 leaders. By the time of our final report, we aim to have extended this to 50 interviews. Our hope is that through their stories we will be able to help organisations to respond to the challenges that they are encountering.

A. Turbulence, uncertainty and ambiguity (but not as we knew it)

“We have been here before but this time it’s different”

One central theme runs through all of our interviews. Leaders have experienced an abrupt and dramatic change in their organisation’s environment as a result of the economic downturn. Most of our participants have been directly affected. Many have experienced a moderate or large decline in revenues but a small percentage has experienced an unexpected rise in revenue.

All our participants have sufficient experience to be able to recall previous economic downturns; however, this one feels different to them on a number of levels. They include:

- The speed and abruptness of change in their markets
- The depth and magnitude of decline in some markets (e.g. automotive, property, construction, shipping etc.)
- The inconsistencies and unpredictable nature of changes across different sectors
- A breakdown in trust with institutions, particularly the financial institutions, which have in the past been considered to be reliable
- The global nature of this recession where all regions and most countries are impacted
- The interconnectedness of markets, geographies and institutions
- The lack of availability of credit and finance.

They have been thrown into a world of uncertainty and ambiguity. Any sense of stability in the present or confidence in their ability to reliably predict the future has disappeared. The high level of uncertainty that people are experiencing is having a number of consequences.

A wave of anxiety

A wave of anxiety has been unleashed across organisations, markets and society. This reflects a ‘fear of not knowing’. Few of us can say that we have remained untouched by what’s happened. Anxiety is contagious and therefore rapidly transferred from one person or group to the next. Even organisations that seem to be doing well or are relatively stable are noticing signs of a dip in morale

amongst employees. Many of us know someone who has either been made redundant or is worried about the security of their jobs. Feeling anxious because others are anxious is an innate human response. The anxiety stems from the uncertainty about the future and the fears that are evoked about what might happen. The trouble is we do not know what 'it' is or when 'it' might happen? Or whether, indeed, 'it' will happen at all?

In contrast, one leader in a large retailer expressed concern about the relative absence of anxiety in his organisation, which is experiencing strong growth. He stated that : *"Our leadership issue around here is complacency ... keeping people on the edge so that they continue to challenge everything we do. We need to be so much smarter with our operating model ... in fact a dose of the right sort of anxiety might actually be helpful."*

It is counter-intuitive to think of anxiety as useful. The norm is often to suppress or avoid it given it can be overwhelming and inhibiting. The risk is it can cause fragmentation and withdrawal which prevents a coherent response. The opportunity therefore is to bring people together so that the connectivity enables sense making to take place at an organisational level – which we will call for now a "socially intelligent response". This is the alternative to those organisations where individuals may be acting intelligently and following the best of intentions, yet the collective wisdom is relatively low.

In our previous article, we suggested that those organisations that had a culture of engagement and investing in people were perhaps better prepared to cope with the challenges they are now facing. Another related hypothesis is that the high levels of anxiety have amplified existing patterns of interacting within organisations. So, cohesive, collective behaviours are more likely to come to the fore if they were already part of "the way we work around here". Similarly, those organisations which have encouraged individualistic behaviours in the past are finding it difficult to reinvent themselves into an ethos of "we are all in this together." In other words, authentic and consistent values help people to have a sense of perspective and meaning even when everything seems to be changing around them.

As one person put it: *"I find it quite interesting how our leaders have framed this situation – as if it has all been caused by the global recession. My view is it's a bit like MRSA: if you are in good health before you get it, you have a much better chance of surviving it."*

The rule book has gone out the window

Organisations develop over time implicit or explicit rules or principles for the behaviour of people within them. They form the basis of repetitive patterns, ways of organising work and responding to customers; including processes, workflows and systems. Many leaders are finding that they are not able to simply follow these rules and fall back on the familiar responses to a situation. For instance, some of the automotive companies in our research have experienced a 40% - 60% fall in volumes which has required a complete re-think of responses and ways of working. Management tasks such as forecasting and planning in some businesses have become very difficult, leaving managers with the challenge of how to balance supply with customer demand and organise resources.

Participants felt that in the previous recessions their response would have been to 'ride out' the recession and to 'batten down the hatches' on the assumption that the 'storm will pass'. The 'unknown' nature of this recession has thrown this response into question for some. Others are holding onto an implicit assumption that this is part of the economic cycle and eventually economies

will return to growth. A significant proportion of our participants made this assumption without questioning it; their question has been more about how quickly will the economy turn and at what rate? As one European leader suggested: *“It is important to get everyone to focus more on the outcome of an eventual upturn rather than the process and tasks leading up to it... in fact the worse case scenario is not that bad for us.”*

Are people questioning their values at a fundamental level?

Whether this is some kind of collective existential crisis remains to be seen. What we have heard are questions about the sustainability of the previous ways of doing business.

“It is hard to accept how the giants who we all thought were invincible have fallen. We have also seen some of our close customers go bankrupt and we even knew their families. It really shakes up your values.”

“Those who are in fear mode tend to take a one dimensional approach by focussing on cost cutting. But what I have found most inspiring has been to see the reaction of most of our managers who have seen this as a time to come together, to be more connected and more people orientated. For them the little things are the big things. It is times of adversity when we show our true colours and what we stand for.”

One well known company talked of returning to their original brand and organisational values which were associated with the family that founded the business. They have noticed a reinvigoration effect amongst the remainder of their employees having suffered a dramatic downturn in revenues and related resources. A senior executive in a High Street bank talked of how they now needed to go back to their original heritage. It was already noticeable that they were becoming more humble in their more recent marketing campaigns which were similar in spirit to what they used to be associated with.

B. How are organisations responding?

Sense making and connecting with customers

The focus of many leaders in recent months has been on making sense of the impact of the economic conditions on their organisation. Many organisations have found that their capacity to make sense of their internal and external environments has been overwhelmed. In the past, leaders have relied on information and data which highlights trends to inform their decision making. The abrupt nature of the changes and the uncertainty surrounding markets has called for a different response. Many leaders told us that they were “getting out of their offices” to talk to people in an attempt to make sense and to understand how they were being impacted. CEOs pointed to the importance of communicating with their Boards and major shareholders to ensure they understood the situation and its implications for the organisation.

Staying close to customers was the most frequent response we heard about. This serves two purposes. First, it enables leaders to understand how their customers were being affected and responding; and second, it helped to develop trust and relationships in a context where risk and trust were become increasingly important. One engineering organisation, for instance, reported

that it had experienced a sudden and unexpected fall in demand for one of its key products. They could find no immediate explanation for the decline. Their response was to initiate a series of conversations throughout the customer chain to understand what was happening and therefore plan a response.

A leading UK manufacturer wanted to improve its efficiency and improve its responsiveness to customers. The organisation developed a process for inviting key customers to come to its head office and talk about their experience of working with them. Each customer was met by a representative of each function in the business. The process helped the organisation gather customer insights and learn about the effectiveness of their processes and identify how their products could be improved.

Organisations do appear to be using the economic conditions as an opportunity to strengthen relationships with their customers. In some instances, this was becoming difficult because customers were refusing to pay invoices because of their cash flow problems

In the process of developing a response to market changes leaders are attempting to understand the risks to their business and where they may be exposed or impacted. The organisations where leaders are most concerned about their exposure are those which are highly leveraged or ones which have experienced a significant decline in revenues. The dramatic currency fluctuations over the past year have posed significant risks to some businesses. Companies that are in niche markets feel exposed, although for some their niche and uniqueness is proving to be a competitive position. Businesses that have a wider portfolio of products and markets are obviously working hard to understand which ones are in decline and where opportunities may exist for new revenues. The key message appears to be: understand where you are exposed and manage your risks.

Making tough decisions

One consequence of the recession is that many leaders have had to make some tough decisions and give tough feedback to the organisation around its performance. These decisions included freezes on expenditure, stopping investments in new projects, closing down projects, re-organising, reducing marketing spend or withdrawing from markets. It's significant that several organisations that are experiencing a crisis had been aware of major problems in their business before the downturn was really upon them. In comparison, those organisations that appeared to be in better shape had confronted performance issues prior to the 'shock' in the autumn of 2008. They therefore felt their level of exposure was reduced because they were competitive in their markets.

The hardest decisions inevitably involved making people redundant yet a significant message was not to see redundancies and layoffs as the end of a process but the start of a journey of change; which engaged the whole organisation in creating a sustainable and viable future rather than continuing in the same mode as before and assuming that the problem had gone away. There was also recognition that problems that had been avoided or not confronted now had to be addressed.

There were some organisations that were already lean and had very little left to strip away without removing the core capability of the business. A common question we heard was: *"What do you do when you have no access to further resources or investment, where you are asking fewer people to do more for relatively less... where you have to work with who and what you have? Yet we still need to find new opportunities or innovations and we still need to somehow retain and provide a great service and value to our current customer base"*.

Being flexible and responsive

Most of our participants have found that the new environment requires them to be more flexible and responsive to changing conditions.

A long established engineering and environmental business that is spread globally has started to reap the benefits of moving work around its regions. It has helped them to retain key staff as long as they are prepared to be mobile. In spite of constraints on travel, a regional director from the same organisation is making even more effort to get around his region to stay close to customers and staff. It is this increased presence that enables new ideas to be nurtured locally rather than suppressed by an absence of visible support and encouragement. Many of these innovations have been co-developed with clients. *“What gives me most strength and hope is to see that we have maintained many of our key clients and that we have been able to support each other through these difficult times. Whatever happens in the future, it is those relationships that will carry us through.”*

Tasks such as long term planning are being questioned and leaders are finding that they need to engage in more regular dialogue with a wider range of individuals to review budgets, forecasts and plans. Some degree of ‘trial and error’ or at least informed and reasoned experimentation is necessary. In essence, our participants are finding that they need to let go of feeling in control of the situation whilst not acting ‘as if’ they have no influence.

One senior manager was concerned that his people were finding it difficult to get the balance right in the way they are responding to more and more demands from their colleagues. Some of the other managers can seem like they are panicking and under stress whereas others are asking the earth but for all the right reasons. *“Some people are being over responsive by saying yes to everything whilst we have others who are precious and obstructive particularly if a process isn’t followed. Both reactions are unhelpful as there is still an abdication of responsibility either way.”*

Sharing information, concerns, implications and without overwhelming people

A common dilemma across the leaders we interviewed was how to help people to understand how their organisation’s context is changing without overwhelming them or inducing fear. They felt that the high levels of anxiety and media coverage of the economy meant that employees were hungry for information and had a tendency to assume that things were worse than they, indeed, are. In some of the worst hit organisations, where redundancies had been necessary, leaders were focusing on ensuring people felt both supported and understood that change was still necessary. We heard that people reacted in a range of ways:

- Denial that their organisation was going to be impacted. A European manufacturing business supplying the food industry, for instance, had assumed in 2008 that the implications for its products were likely to be relatively small. However, in January 2009, they experienced a significant drop in sales.
- Feeling overwhelmed and becoming passive or panicking.
- Taking responsibility and acting locally to make improvements or identify opportunities. An insurance company, for instance, had engaged all of its teams to identify and make process improvements. This had resulted in a bottom up response which was creating significant improvements in customer satisfaction and productivity.

“Necessity is the mother of invention”

A high proportion of organisations in our study are responding to the economic crisis by searching for new opportunities to innovate and make performance improvements. For those individuals who are not feeling overwhelmed by events, the challenges they are experiencing are invigorating and energising. We have heard many stories of innovation and creativity in response to the challenges or pressures created by consequences of the downturn. The pressure to innovate is coming from the unavailability of finance for investment, the need to respond quickly to unexpected changes in the market and the need to maintain cash flow.

The economic turbulence, whilst releasing anxiety, is challenging leaders to seek new opportunities, question their leadership and assumptions about the world and review their strategy. The challenge confronting leaders is how to create the conditions to support creativity and innovation. We know it requires a safe and supportive environment but also one where people feel responsible, trusted, able to take risks and willing to show initiative. We did hear stories of helplessness, inertia and blaming external forces. However, it was striking to hear one retailer talk about taking responsibility and not blaming the market. *“There has been some dilution in our earnings recently but that is more to do with our performance and where we have not exploited opportunities.”*

Coming together or pulling apart

“When you are in the fog you don’t run off in different directions, you join hands and take small steps together.”

Across our 40 interviews we started to become aware of what appears to be an emerging shift across organisations towards a greater sense of the collective and people coming together to support each other. Research and history tells us that people come together in a crisis. We heard of several large organisations where people were expressing a desire to embrace the organisations core values and for people to “stay true to what they believed in”. In these organisations, we had a sense that individuals were working together and reaching out to customers. A spirit of collective responsibility is starting to prevail as people feel mobilised to take initiative, to be receptive to new ideas and engage in change.

A senior manager in a global logistics company described how they had approached a customer with a proposal to outsource part of their operations to them. The proposal offered significant cash flow benefits to the customer and new business for the logistics provider. The assumptions of the managers involved were that the proposal would be met with opposition from the union representatives in the country. To their surprise they responded with “relief and excitement” as it signalled to them that their jobs were secure and their operation was not about to be closed down.

Not all organisations are experiencing such a ‘coming together’. Indeed, even in the organisations where we heard such a social pattern emerging, we also heard evidence of paranoia and some cynicism. In these organisations, people feel *fragmented, isolated and alone*, in competition with each other and *unsafe*. Managers and employees felt helpless and powerless to act. In one large financial institution, we were told that individuals feel unsafe, are blaming each other and are focusing on looking after themselves.

One of our respondents commented: “....people are not having open and productive dialogue. This is indicative of a more frightened organisation where emotions are reined in, decision making is opaque and equality of opportunity is inconsistent across the organisation.”

A real life scenario of anxiety, fragmentation and isolation:

People are feeling anxious and frightened about how the economic downturn is going to impact their organisations and their lives. People’s natural response is to look for signals and messages that give them hope that the worst is not going to happen. These signals might include acts of leadership, collective action, thought through strategies and plans, success stories of new business or projects etc. When they do not find them, they respond by become more anxious and panic starts to set in.

We pulled together responses across our participants who felt isolated, anxious and overwhelmed. The following summary reflects their experience:

“I feel anxious, scared and isolated. With my colleagues I feel disconnected and unclear about how I am to respond. If I am honest I am confused about the messages I am receiving from my leadership. I am being told that I need to worry about the situation and that we need to cut costs, which includes redundancies for some people. My assumption is that this does not mean me; however I am starting to worry that if things get really bad over the next six months then we may all be suffering. My leadership is not clear about what we can do that is proactive and positive in the situation.

My first response is to look around my organisation for signs that others are responding in ways that engender confidence. My anxiety is further increased, however, when I hear people complaining of the lack of response from our leadership. When we talk about the situation I can sense my colleagues’ anxiety and yet I have the distinct impression that they believe that doing what we have always done will be sufficient. It’s hard to understand whether we agree on what to do. It feels ‘as if’ we are all off doing our own thing. What I want more than anything is for the organisation’s leadership to state clearly where we are going to focus our efforts and to be clear around how we as an organisation are planning to respond. I pick up that at a senior level people have different views and beliefs about what we should do. Overall, this leaves me feeling helpless, afraid and angry with my leadership for not understanding what I need in this situation.”

What seems to make a difference? In our previous article we talked about the role of leadership in connecting with people, giving direction and creating a proactive climate. An organisation’s existing culture and the prevailing level of trust within it also appear important. For instance, in one large financial institution, levels of trust in the organisation’s leadership had been destroyed. No doubt the levels of anxiety and the degree of impact of the downturn affected the conditions that support a collective response.

So how do we make sense of what is happening right now in organisations?

It has not been easy to analyse the complexity and uniqueness of each of the stories we heard into tidy categories and themes. However there are a number of patterns that are worth paying attention to and perhaps could provide sources of hope for how to survive and stay healthy during

these times. We do not want to underplay the difficulties and challenges confronting organisations in the present climate, nor do we want to give the impression that employees and leaders are not experiencing high levels of anxiety, fear and concerns. The question confronting leaders, however, is how they chose to respond to these conditions. One response appears to be to keep doing what's worked in the past. The dominant mantra from Government and other respected voices has been that this has all been part of a cycle and that the economy will show an upturn at some stage ... it is just a matter of time. To challenge these historic assumptions requires the courage to risk acting differently and persuade your colleagues to do the same.

Many business leaders have told us that they have never worked so hard yet are noticing that their minds feel sharper and that they have never felt more alert to possibility. *“When people are looking to you for answers and you too are looking upwards and outwards for answers, then you have a responsibility to be as transparent as possible about what is known, what is still uncertain and possible future scenarios.”*

Is this change for good and do we really want to return to the old ways anyway?

One question that we feel needs to be asked on the basis of what we are hearing is whether what is happening is consistent with the historical pattern of the economic cycles of growth and recession? Or is what we are experiencing characteristic of a more turbulent, uncertain world where rapid changes and uncertainties are the order of the day rather than punctuations to the pattern of economic growth?

Many of the interventions by governments at the macro- economic level do appear to be an attempt to bring a return to the familiar and known. The underlining assumption is that a return to what we know will be good for us and that if things continue to change then the outcome will be disastrous. One scenario worth considering is whether those organisations who are working smarter and in a more connected, flexible and collaborative way are perhaps creating a self fulfilling prophesy that means business may never quite be the same again.... whatever happens in the future.

Updates to the research will continue to be published over the coming months on our website: www.ashridge.org.uk/research-inthethickofit