

'IN THE THICK OF IT'

How are leaders and their organisations experiencing the economic crisis?

By Kevin Power and Andrew Day

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. They are at a mid-point in the research and this article presents a brief 'snapshot' of some of the early insights that are starting to emerge.

In late September 2008, the unthinkable became a reality with the announcement of the collapse of Lehman Brothers. This was probably the tipping point of the 'Credit Crunch' into a full-blown 'Economic Crisis'. Few people anticipated the scale and reach of what happened next. 'Uninterrupted' economic growth abruptly changed to a global economic slow-down and decline. What was different this time was that there appeared to be no 'safe havens', where investment could be redirected into other sectors or other parts of the world. Mature and developing markets, whether from the East or the West, are now all in this together.

The media has presented us with a series of headline-grabbing stories around the losses of the banks, the collapse of High Street names, financial crisis in the automotive industry and rising unemployment figures. These headlines and the uncertainty they confront us with have stirred up anxiety and fear across the world. There is a noticeable lack of confidence in the financial system, stirrings of civil unrest, anger at what is perceived as 'bail-outs' for bankers who caused the

crisis whilst ordinary citizens bear the brunt, and a strong desire to allocate blame. We are all affected – if not economically then emotionally – by the anxiety that has been released within society and our organisations. It is understandable then that many people are now questioning their own values and sense of purpose. Some feel that perhaps the world of business will never be the same again.

What is really going on in organisations?

In an attempt to get behind the headlines and statistics, we have been talking directly to leaders who are currently 'in the thick of it' as they navigate their organisations through the current market uncertainties. At the time of going to press we have received over 75 responses to our on-line survey and completed interviews with over 40 leaders and senior people in leading organisations drawn from automotive, manufacturing, professional services, banking/finance, leisure, energy, business support, telecommunications, and commercial property sectors. While the focus is on firms headquartered in the UK and Europe, contributions from subsidiaries based in the

Middle and Far East have been included to gain a global perspective. In these conversations, we have been asking:

- How are organisations and leaders experiencing the economic conditions?
- What have been the specific challenges confronting their business?
- How are they responding? And how are other people reacting in their organisation?
- What is it they are doing as leaders that is having the most impact and what are they learning along the way?
- What is giving them the most strength or hope in the current climate?

To supplement these interviews, we have distributed an online survey to our clients and wider contacts and to date, we have had detailed responses from another 50 senior managers.

We shall be publishing our findings later in the year, but are already able to share an outline of what we are discovering and some initial insights that we shall be seeking to validate as our work proceeds.

What are we discovering?

Our research is discovering that whilst the media has significantly influenced the way we are responding, it inevitably only deals with what is newsworthy – the drama and despair – which is just one aspect of the full picture. We are certainly hearing stories of organisations that are in a very difficult position and one or two that could be described as being in crisis. We are also hearing, however, stories of creative change, innovation and remarkable levels of commitment and resilience. In the midst of these challenges, many of our participants have been expressing a sense of energy and excitement about their current experience. Unusually, they are being forced to deal with the here and now, given that the future is likely to remain unclear for quite some time.

It is evident that each organisation's experience is unique. The full impact of the economic conditions is influenced by: the context of its industry sector or market, the financial and ownership structure, its competitive position in the market, product or brand strength and historic performance. Internal factors, such as culture, attitude to risk, sense of empowerment and leadership capability, also shape how people are experiencing the economic crisis. We are therefore cautious of making sweeping generalisations or simplistic statements about the implications of the economic environment.

The economic realities

In broad terms, organisations' reactions to the economic impact on their business vary on a kind of continuum. At one end of the continuum, the business is 'staring into the precipice', with a loss of confidence shown by a collapse in share price, or a withdrawal of further funding. As one person put it: *"We are battenning down the hatches and weathering the storm as best we can. We are reducing our*

workforce in line with reductions in turnover. It's a simple equation: 30% downturn equals 30% less staff. And there is more to come." In the middle somewhere, organisations are still anticipating the impact and doing what they can to reduce their exposure to the downturn. At the other end: "We are doing OK and still growing but we are monitoring the situation very closely. We have developed a number of scenarios and will react accordingly. There is still the possibility that we can see some profitable opportunities in the medium term."

At the centre of the leadership experience is the challenge of dealing with the uncertainty of their current environment. Perception is everything and this can change from day to day. So one day it feels like the business might be stabilising, then the next day new information could change this sense of hope back into a state of despair. Of course in some instances, the impact has been very immediate and very tangible. For certain sectors, such as the automotive industry and its supply chain, volumes have dropped by up to 40% – 60% in some cases. Those who remain employed have to work with even less and somehow find innovative ways of working that can still respond to what remains of their customer base. Improving the customer experience and getting back to a meaningful purpose is what keeps them focused and ready for the upturn.

Leaders in our study also attributed their organisation's level of exposure and ability to withstand the economic downturn to the extent to which they had invested both in developing organisation capability and maintaining a competitive cost base, relative to the competition. These organisations had a track record of continuous improvement, proactive cost management, restructuring, and redeployment of people which enabled them to draw on existing knowledge and expertise without resulting in panic measures. They are finding that their

relative strength and flexibility in comparison with their competitors is increasing because they are able to respond, take action and invest.

How are leaders making a difference?

Whilst we observed considerable variation in leaders' responses to the impact of the economic environment, we are able to discern four patterns of responses which are helping to sustain an environment of resilience, confidence and hope. These patterns are:

- **Being fully 'present' in the organisation:** relating to people and providing direction to 'contain' employees' anxieties, as well as creating energy for innovation and proactive action. This includes staying with (rather than avoiding) the anxieties and despair of the situation to allow new possibilities, ideas and strategies to emerge.
- **Creating trust:** through constant communication, transparency and demonstrating a concern for people (even when the news is 'bad'). You have to involve people

in the process of change and be candid about the severity of the situation.

- **Sense-making:** staying 'in conversation' with valuable customers is essential if you want to make sense of how markets are changing and what new opportunities are emerging. This is also about staying close, by sharing information and testing assumptions, with other key stakeholders such as partners, front line staff, shareholders and suppliers.
- **Creating a collective spirit:** an 'esprit de corps' which appeals to core values of the organisation, setting out the collective challenge and providing encouragement with a sense of hope.

Where our participants described situations in which these leadership patterns were absent, we heard stories of division, denial, blame, resignation and fear. In these situations, leaders were perceived as having locked themselves away to focus on the next round of cost cutting and survival at all costs.

We acknowledge that we are undertaking our research in a highly dynamic environment. Even though these are snapshots of a sample of organisations in one period of this economic cycle, there are trends that are starting to be identified and lessons to be learnt. Findings and updates will be published in full on our website over the coming months: www.ashridge.org.uk/research-inthethickofit

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