LEADERSHIP AND CRISIS

Iuliu Marin Ivănescu[*]

Abstract

The task of leading during an unremitting crisis is not an easy task. Economic crisis made possible another kind of difficulties inside companies and I refer at the crisis of the leadership. Today's transnational companies are affected by often unexpected events virtually everywhere in the world. In this unpredictable environment, leaders must be able to create and shift tactics, all the while keeping larger goals in prospect and performance results on target.

Keywords: leadership, crisis, business enviroment

JEL Classification: F23,H12,M21

1. Introduction

It would be extremely comforting to view the current economic crisis as simply another rough spell that we need to get through.

Regrettably economies cannot create a firewall against global competition, energy constraints, environmental changes, and political instability. This financial crisis which will come to an end sooner or later will set almost certainly the stage for a sustained or even permanent crisis of severe and unaware challenges.

2. Heading

The task of leading during an unremitting crisis is not an easy task. Economic crisis made possible another kind of difficulties inside companies and I refer at the crisis of the leadership. It has two distinct phases. First is that emergency phase, when the objective task is to calm the situation and buy some time. Second phase is the adaptive one, when you block the underlying causes of the crisis and build the capacity to bloom in a new reality. The adaptive phase is especially delicate: the staff put huge pressure on leader to respond to their anxieties with authoritative certainty, but if the leader will request them to make essential and painful adaptive changes in their manners or work, they may try to bring him down.

The danger in the current economic situation is that leaders will act wrong. They will try to resolve the problems with short-term solutions: constricted controls, across-the-board cuts, reorganization plans. That is understandable because no one in a position of authority has been here before. So, an organization that depends exclusively on its senior managers to deal with the challenges risks more than others failure. That risk increases if the leader draws the wrong conclusions from the apparent recovery of the economic recession. This scenario is well known in the

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[*] Iuliu Marin Ivănescu is Associate Professor of Economics at the Romanian American University in Bucharest. E-mail: ivanescu.iuliu@profesor.rau.ro

medical literature. When a patient arrives at the ER, medics will treat first the most critical symptoms. That will often create an illusion of fast recovery. But this does not mean that the patient is now cured. In many cases this first recovery will be followed by an aggravation of the deepest causes of the disease. These is happening because the patient will act as a healthy person at the first signs of recovering, ignoring the fact that he is still sick and not able to live like a normal person. In the real economy crisis will create also the wrong perceptions of periodical improvements of the economic environment. If leaders are deluded by the apparent recovery of the economic recession probably disasters will happened.

Crisis management specialists speak of the *Golden Hour* of crisis response, invoking a metaphor originating also from emergency medicine. The Golden Hour refers not to a particular period of time, but to the actions that delay in responding to a crisis which will have greater impact on the outcome.

Leaders who practice what is calling adaptive leadership do not make this error. Instead of kneeling down, they grab the opportunity of moments like the current one to hit the corporation's reset button. They use the confusion of the present-day to build on and bring ending to the past. In the process, they change main rules of the game, redesign parts of the organization, and redefine the people activities. In fact this process of adaptation is at least as much a process of preservation as it is of redesigning.

But it is clear that the company and employees will experience loss. Some parts of the corporation will have to perish, and some jobs will be eliminated. As personnel try to develop new skills, they'll often feel humiliated of their unskillfulness. In this process the leader must reveal empathy. That is because he will need people's help and not obedient blind loyalty because nowadays the future is building with enthusiastic approach in discovering paths and not with submissive indifferent existence.

Real leadership response to any crisis is a competitive advantage; ineffective crisis response causes a competitive disadvantage, and can even put an enterprise's existence in danger. Whether an organization survives a crisis with its condition intact is determined less by the severity of the crisis than by the timeliness and effectiveness of the response. Speed matters, and time is a leader's enemy in a crisis. When a crisis appears, the usual business processes and decision rates need to be suspended and decisions need to be made in ways that reassure key investors that a company and its leaders understand that there's a problem and are taking steps to address the problem.

In the present-day context, leadership is an art. The skills that enabled most executives to reach their positions of command can get in the way of success. Although these skills will at times still be appropriate, the adaptive phase of a crisis requires some new leadership practices. Managers today face two competing demands. They must execute in order to meet today's tasks, and they must adapt what and how things get done in order to succeed in tomorrow's world. These dual tasks can be practiced by leaders and managers and also by people who do not happen to be at the very top of an organization.

As I already said getting an organization to adapt to changes in the new environment is not easy. As considering removing practices that seem ill suited to a changing environment, leaders must differentiate the essential from the expendable. But how to tell for sure what is essential and what isn't? Because it is hard to say what will occur in a crisis situation it's prudent for the leader to avoid grand or detailed strategic plans. Instead, he has to run numerous experiments. Many will fail, of course, but that winding path will be emblematic for the company's ability to discover better products and processes. Let's take a moment and reflect on one giant software company strategy. Microsoft has developed a strategy to reduce costs with testing new products. Instead creating his own wide testing divisions, this company offers to public beta versions of his future products: version 2.0 or 3.0 of one product is an explicit acknowledgment that products coming to market are experiments, prototypes to be improved in the next iteration.

Without perseverance, difficult change becomes far less likely. But if staff feels too much distress, they will fight, resign, or freeze. The art of true leadership in today's world involves coordinating the expected conflict and confusion of change so that the metamorphoses are productive rather than destructive.

Keeping a company in a competitive zone even if the business environment is defined by instability is a delicate task; in the practice of leadership, decision making process must act like a thermostat. If the heat is constantly too low, employees won't ask uncomfortable questions or make difficult choices. If it's constantly too high, the risk for organization solidity is to meltdown, people are likely to panic and kneel down.

Maintaining the right level of disequilibrium requires that a leader must depersonalize conflict, which naturally arises as employees experiment in an environment of uncertainty and turbulence a sudden shift in carrier. The goal for the leader is to focus the disagreement on issues, including some of his personal viewpoints, rather than on the interested parties. That game requires that a true leader must create a culture of courageous conversations. In a period of uncertainty, the most difficult topics must be discussed and not avoided.

Corporate adaptability comes today not from some new initiative dreamed up at headquarters but from the accumulation of micro adaptations originating in company responses to its many microenvironments. Even the apparent successful big show made by corporations in our days is typically a product of many experiments, one of which finally proves path breaking. In the same time, it is an illusion to expect that an executive team on its own will find the best way into the future. So a true leader must use leadership to generate more leadership deep in the organization.

Single executives just don't have the individual capacity to sense and make sense of all the change spinning around them. They need to distribute leadership responsibility, replacing pyramid and formal authority with organizational bandwidth, which appeals on collective intelligence.

To distribute leadership responsibility, a true leader needs to mobilize everyone, the entire team, to generate answers by growing the information flow that allows employees across the group to make independent decisions and share the lessons they learn from successful or unsuccessful efforts.

New leadership and innovative ideas generate the need to be influenced by diversity. Most of managers tend to spend time with people who are similar to them. But if they do not engage the widest possible range of life experiences and views they risk operating without a nuanced picture of the shifting business environment.

Finally a real leader must not lose himself in his own character. Defining life through a single endeavor, no matter how important his work is to him and to others, makes the person vulnerable when the situation changes, it also denies him other chances for success.

Speaking about leadership, the pattern of evolution of leadership development over time revealed a shift that the current economic forces have brought into sharper focus. Economic literature present this process as the evolution from Leadership Development 1.0 through 2.0 to the emerging 3.0 level.

Leadership Development 1.0 was the traditional, early approach to leadership development, with the focus on the individual executive. This approach usually provided image time away from the office, generally in rich surroundings, as a perk for the privileged senior leader. The input was mainly academic, with little emphasis put on implementation or execution and little assessment of impact.

Over time, Leadership Development 2.0 emerged. Increased focus was put on team development or cross-company connections and learning groups with other companies. Training was introduced as a supplement to formal executive education; there was more of a mix of hard and soft skills and more emphasis on action-learning projects.

Leadership Development 2.0 began to focus more on addressing business priorities, developing cross-company relationships and supporting effective execution. However it was still largely predicated on a model of developing the capabilities of specific individuals, using the methods chosen or developed by the corporate leadership development function.

More recently we have seen evidence of what we are calling Leadership Development 3.0, characterised by a team-based focus, originating from specific strategic or operational business issues and much more integrated with regular day-to-day work processes. There is a trend toward learning from one's peers within the company but at the same time developing long term relationships with a small number of trusted external partners, who know the business well and can offer insight and challenge while supporting effective execution on a day-to-day basis. This more integrated and focused approach to leadership development – linked to specific business challenges - has become more pronounced as a result of the current economic pressures.

Supporting leaders through their decision-making in difficult times, using a diversity of catalysts to help reframe complex challenges so that they can be seen with fresh eyes, building capability around specific business needs: these are fundamental aspects of Leadership Development 3.0.

Concerning the future trends of the leadership during this deep economic crisis period two outcomes from this year's Best Companies for Leadership survey, conducted by Bloomberg BusinessWeek.com[1] and Hay Group, stood out.

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[1] www.businessweek.com

First, the Top 20 companies for 2010 are significantly more likely to be mostly focused on "positioning for the future" than other corporations.

Secondly, there is a revealing shift in what the top corporations values in leaders. We can see how companies started appreciating the ability of leaders to achieve results through others and how those choices migrate this year to strategic thinking.

Last year's focus on execution was a clear reflection of the chaos that virtually every business had to deal with. This year's emphasis on strategic thinking suggests that businesses today are reviewing their options, reconsidering their strategies, considering new opportunities and innovations.

This article revealed that most companies were highly committed to emerging leaders from inside their ranks. This time around, more enterprises have recognized the value of having experienced managers ready to help lead the way into the new opportunities that accompany a recovery.

Confusing matters, today's transnational companies are affected by often unexpected events virtually everywhere in the world. In this unpredictable environment, leaders must be able to create and shift tactics, all the while keeping larger goals in prospect and performance results on target.

Certainly, one result of the economic crisis is the cry for a new style of leadership. Since September 2008, the leadership and management practices of financial institutions have been widely discredited. This has caused new thinking about groups and leadership within financial-services - and in business in general. The new leadership styles that succeed, and associated changes in management and governance structures, will shape the development of business institutions mostly. It isn't yet clear what norms and values the new industry leaders will win, but the pressures on them are evident, and the history of managerial culture suggests that we will see some major transitions, and some unexpected ones.

In creating teams, boards will tend to favor a diversity of characteristics, and they should guard against the drift toward homogenization. Further, power and control will be separated more actively and structurally. There may be a segregated, internal governance structure in some organizations whose role will be to audit and hold to account those with primary decision-making authority. Rather than accepting conventional wisdom and existing policies, they will need to look for disconfirming facts and contrary evidence.

This type of governance structure is made even more necessary by the fact that only a few percent of new CEOs today come from outside the company. Many corporate leaders will therefore need organizational innovations that provide visibility and challenge to management at quite detailed levels.

3. Conclusion

There is a risk that such governance models will simply re-create the old bureaucratic staff structures that hobbled companies in the 1960s and 1970s. What we will need is firmly limited roles and processes, a separate voice and perspective, and a smaller number of resources and processes. This additional, shared, and

relatively informal approach will require leaders who are unusually holistic, integrative, and dispassionate in their character and thinking. This is not a time for leaders who will be ambushed by details, nor for those who are convinced they see the future clearly and want their organizations to fall in line. Rather, they must see the general patterns, and see them better than others, while recognizing, not suppressing, the risk and uncertainties.

What we cannot see at the end on 2010 is a new healthy global image of the economy. Instead, despite the fact that the most developed world economies are slowly recovering, in many countries the economic crisis is far to be ended. We have no clear answers in what we have to do to avoid future crises such the present one. We have no clear leadership tactics fully validated by the present still volatile business environment. Writing these lines I am concerned of the fact that modern leadership took recent positive signs coming from the world economic environment as an indubitable out of crisis signal. In my opinion, based on everyday living, the present economic crisis dos not arise to an end. As I wrote at the beginning, the world economy is feeling better now but it isn't healthy yet.

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