

LEADING OUT OF A CRISIS

SOME PERSPECTIVES FROM COVID-19

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CONTEXT

The COVID-19 pandemic period is a time of exponential change. It has presented significant leadership challenges due to its global scale and its impact on operations, stakeholder health and wellbeing and on organisational finances and survival.

“The pandemic has upended things with breathtaking speed. Our planning horizons are being compressed to almost nothing. We’re flying blind into a very uncertain future.”

General James Mathis,
former US Secretary
of Defence

Business leaders need to take the initiative in managing the challenges presented by the COVID-19 crisis. A crisis of this magnitude is likely to create significant changes to the post-crisis economic and business landscape or “next normal.” Whether an organisation survives, and how it emerges from the crisis, is in part impacted by public health, economic and regulatory factors beyond its control. However, organisational outcomes will also be significantly influenced by its corporate governance and leadership responses. Required actions can be considered over three horizons: *respond*, in which an organisation deals with the immediate and manages continuity; *recover*, during which it learns and regains position; and *reimagine*, where the organisation anticipates and prepares for the next normal.¹

For the purposes of this briefing, leaders are defined more broadly to include the C suite as well as boards of directors and thus our observations are aimed at members who are directors or advisers to boards who assist organisations in navigating these challenging times.

LEADERSHIP DURING A CRISIS

The need for resilience, including aiming for speed over elegance, clarity of decision making, communicating empathy and displaying bounded optimism are often mentioned as essential leadership traits during a crisis. However, at times, seemingly counter intuitive actions may also be warranted.

A recent study of several successful leaders suggest some lessons for leading during a novel crisis, which are summarised in Table 1 below. It highlights that the instinctive response will not always be what is needed in a crisis.²

¹ An earlier board briefing (CPA Australia (2020): COVID-19 Key implications for boards) discussed the three horizons of a crisis and the typical responses required.

² Kerrissey, M. and Edmondson, A. (2020), “What good leadership looks like during this pandemic”, Harvard Business Review, April.

Table 1 Overcoming instincts to lead effectively

Instinct when facing uncertainty	Needed in a crisis
Seek more information	Act with urgency
Be resolute and justify actions	Acknowledge and respond to mistakes
Stay the course	Adapt and update continuously
Talk down threats and withhold bad news	Communicate with transparency and clarity

Adapted from Kerrissey and Edmondson³

Act with urgency

When faced with ambiguity and uncertainty, an understandable instinct is to seek more information and clarity before acting. However, in a crisis, wasted time and delays can be damaging and there is a need to act with urgency.

Take responsibility and respond to mistakes

Given the scale and novelty of this pandemic, mistakes and problems are inevitable but the leaders' responses are critical. These mistakes must not be met with self-justification or blame shifting. Rather, effective leaders will acknowledge missteps, learn from them, and concentrate on solving future problems as they arise.

Adapt and constantly update

Singular focus on the agreed organisational strategy and sticking to the plan is often seen as good leadership. However, given the scale and novelty of this pandemic and the velocity of its progression, effective leaders need to continuously reassess and adapt their strategies. The diversity of expert advice received is also important. It is likely that as the impacts of the crisis evolve, the mix of advisers will need to change and the co-opting new board members, executives or advisors may be warranted. This requires leaders to be able to make and implement decisions about their team and its composition in real time, even when it challenges established forms of governance. They must also be aware of the legal obligations of their organisation, such as those of a publicly listed company.

Communication

It is never easy to communicate bad news with the inherent risk of unsettling key stakeholders. In the context of a crisis such as COVID, it is tempting to talk down the threat to the organisation. However, leaders owe it to their stakeholders to provide honest depictions of reality and to be as clear as possible about known facts as well as "known unknowns." Attempts to underplay the threat will undermine the credibility of future communications, as well as trust that is integral to successful organisational culture.

Aside from dealing with bad news, communication more broadly is a critical aspect of leading during a crisis. It is important to communicate early and frequently, even with incomplete information. Strong public speaking and motivational skills are a vital part of a leader's skill set but these are particularly important in a crisis. Communications must also have some positivity and hope for the future to motivate stakeholders and direct their energy. This may be viewed as bounded optimism.

³ Kerrissey, M. and Edmondson, A. (2020), "What good leadership looks like during this pandemic", Harvard Business Review, April.

A research-based model developed by Mayfield and Mayfield highlights three key elements for effective leadership communication.⁴ The Mayfield model suggests “direction-giving”, “meaning-making” and “empathy” are the three key elements leaders must address to motivate and obtain optimum results from followers. The Mayfield research shows that leaders typically over-use direction-giving while the other two elements are under-used.

Many consider New Zealand a success story in its handling of COVID-19. Prime Minister Arden’s communication in relation to COVID-19 has been an exemplar in using the elements identified by the Mayfields. In the context of the early lockdown, by directing people to “stay home to save lives”, the Prime Minister succinctly offered real purpose to her direction. While giving direction, this early communication also involved meaning, as Arden was creating a narrative around how New Zealand would work together to overcome the threat of COVID. Similarly, the way Arden addressed the nation from home – wearing casual clothes and with a child’s toys in plain sight – at a time of national lockdown was a great example of showing empathy and identifying with her citizens.

THE NEXT NORMAL

History shows us that external shocks on the scale of this pandemic create major changes in customer and stakeholder attitudes, behaviours and preferences. For example, World War II accelerated significant social changes, such as greater participation of women in the workforce and the development of commercial aviation. It was also the catalyst for the invention or accelerated development of radar, penicillin, jet engines, guided rockets, nuclear energy and a range of other products. Similarly, on a smaller scale, the imperative around social distancing during the SARS epidemic in 2003 was the key driver behind the exponential growth of Alibaba as an ecommerce retailer in Asia. Organisations today also need to identify, adapt to, and shape the emerging new reality.

Some shifts we are already seeing include further growth in contactless commerce; an examination of the resilience and diversity of supply chains; and an increase in working from home with its implications for urban planning, infrastructure and migration away from cities enabled by advances in technology.

Of particular importance has been the significant acceleration in the move toward digital platforms and channels during the COVID crisis. More traditional organisations will need to ensure that they rapidly engage in this transition or else face rapid disruption from early movers into digital platforms and channels.

Many of these shifts are likely to be permanent, becoming the ‘next normal’, and present diverse opportunities that will vary by industry and organisation. A particular challenge will be to distinguish between short-term changes caused by the crisis and more permanent shifts. Data analytics including analysis of sentiment can help identify these trends, customers and markets as well as learning from countries such as South Korea that are further ahead in the cycle.

Sun Tzu said “In the midst of chaos, there is also opportunity” (Sun Tzu).⁵ This is as true today as it was in circa 500BC but to do so, organisations and their leaders will need to move from crisis management to a more innovative mindset.

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Sun Tzu

⁴ Mayfield, J. and Mayfield, M. (2018), *Motivating Language Theory-Effective Leader Talk in the Workplace*, Palgrave Macmillan, New York, NY.

⁵ Tzu, S. (2016), *The Art of War*, Arcturus Publishing Limited, London.

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Leaders will need to adapt their organisations to meet these changes in customer and stakeholder attitudes, behaviours and preferences and both create and embrace the ensuing opportunities. Creating time to anticipate and to strategise for change in the midst of the response phase of a crisis is challenging. Many organisations have created “Plan Ahead” teams to do just that. Boards will also need to reassess their skills matrices at more regular intervals to ensure they have the necessary expertise to meet these shifts.

So what shifts in mindsets do leaders need to make when organisations move from the crisis phase to the recovery and reimagine phases? Some suggestions are outlined in the table below:

Table 2 Mindset shifts

Dimension	Respond	Recover/reimagine
<i>Economic and social environment</i>	Volatile and unpredictable	"Next" normal
<i>Attitude</i>	Reacting	Innovating
<i>Dominant focus</i>	Internal	External and market making
<i>Planning</i>	Contingency planning	Scenario and strategic planning
<i>Management style</i>	Crisis management	Agile decision making and management

Adapted from Deloitte (2020)⁶

As suggested in Table 2, the economic and social environment at the outset, or respond phase of the crisis, is dynamic and unpredictable. This requires leaders to shift their mindset to help their organisation successfully navigate this transition.

The above table summarises the shifts required over several dimensions. For example, the attitude needs to shift from reacting in the heat of the crisis to an innovative mindset that will help reinvent the organisation. The dominant focus will need to shift from internal to market orientated by understanding the evolution of existing markets and trying to capture and own emerging markets. Similarly, planning needs to shift from contingency planning with a focus that is largely on cash flow preservation to a much greater focus on strategic planning.

⁶ Deloitte Insights (2020), The journey of resilient leadership.

Agility

While much of the above is self explanatory, the need for agility when moving towards the next normal is especially important. One positive phenomenon of the crisis has been the speed at which many organisations have accelerated their uptake of technology, built resilience into their supply chains and created alternative revenue streams. Some of these changes, such as Unilever shifting from production of skincare products to cleaning and hygiene products, were simply demand driven. In other cases, these have been to develop or expand online distribution channels and/or moving from B2B to B2C models. While many of these pivots are an extension of existing capacity and are aligned with the organisations' strategy, some might be permanent. Importantly, the agile decision making that lead to these shifts need to be embedded into the organisational DNA as organisations move to the new normal.

Leaders should also explore opportunities for developing collective agility where major challenges require entire systems to be agile and adaptable. Such challenges require whole-system collaboration and design rather than piecemeal solutions. The accelerated delivery of COVID vaccines in the US is a recent illustration of whole-system design and collaboration across all stakeholders in the system. This ranges from manufacture, regulatory approval, vaccine distribution and tracking, supply chain coordination and a range of health care systems and pharmacies. There are many advantages to encouraging a horizontal and vertical cross-section of the system to codesign the strategic outcomes as well as the business model and tactics. These include an outside-in perspective, facilitation of buy-in, identifying bottle necks and problems early, and quicker decision-making.⁷

One major challenge may be tension between traditional governance structures and processes that often focus on risk. Another may be fixed processes and the speed and agility required to take up opportunities in the new environment. Accordingly, governance structures and processes may need to adapt.

Values, purpose and a "better normal"

There is a growing body of evidence showing that overemphasising financial targets erodes employee morale and undermines long-term strategy. This suggests that financial results are an outcome, not a fundamental driver of employee performance.⁸

⁷ Deloitte Insights (2020), The journey of resilient leadership.

⁸ McLeod, L. and Lotardo, E. (2021), "Financial Targets Don't Motivate Employees", Harvard Business Review.

The importance of leaders going back to core values and purpose at a time of crisis has been very apparent. Many of the changes made by organisations to create alternative cash flows during the crisis were also driven by values that make a positive contribution to community. Some examples include Dior and Givenchy switching perfume production (high margin) to hand sanitizer (low margin), as did many alcohol producers; employment platform Hatch creating the COVID-19 Labour exchange within a week to connect employers such as supermarkets, to scale up with staff who have been stood down; and Airbnb announcing a global initiative to house 100,000 health professionals and other first responders.

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There are other cases of organisations taking actions in the interest of its wider set of stakeholders even when there was some financial cost to the organisation.⁹ For example, the CEO of BHP, Mike Henry, said BHP prioritised supporting small, local and indigenous suppliers during the crisis by reducing payment terms from 30 days to 7. He attributes this to BHP's focus on social value and stakeholder relationships. He also says that an increasing number of shareholders are beginning to understand this focus on social value.

Given the evidence that some leaders are going back to core values and purpose during the crisis, it is interesting to consider whether social issues will remain front of mind as organisations adapt. In other words, will the next normal also be a "better" normal? A recent survey of US CEOs indicated that 96 per cent indicated that diversity, equity and inclusion (DEI) are personal and strategic priorities.¹⁰ A similar proportion say that their organisation aspires to be an industry leader in DEI practices, and nearly 75 per cent said they are or will be disclosing DEI metrics in the public domain. Similarly 98 per cent of CEOs believe that employee mental wellbeing will remain a priority even after the pandemic. In regards to climate change, 37 per cent state that they have already achieved net-zero global carbon emissions or have plans to do so by 2030, and another 23 per cent state that they have plans to do so by 2050.

The Chair of ANZ Bank, David Gonski, believes the work done by business for their stakeholders during the pandemic will help build trust in the corporate sector. Gonski argues that one of the good things to come out of COVID is a longer term perspective. He says "Boards and companies have obligations to their shareholders but in the longer term, doing good things in the community produces an asset for the shareholder, rather than an expense."¹¹

Even after the crisis passes, it's likely that stakeholders remember what and who these organisations prioritised. A positive impression of an organisation during the crisis will strengthen relationships, enhance trust and augment goodwill and brand value in the eyes of customers and the wider community well into the future.

⁹ Mather, P. (2020), "Leadership and Governance in a Crisis: Some Reflections on COVID- 19", *Journal of Accounting & Organizational Change*.

¹⁰ Deloitte Chief Executive Program (2021), *Fortune/Deloitte CEO Survey*.

¹¹ Trinca, H. (2021), "Gonski bowled over by good deeds", *The Weekend Australian*, 17-18 April, p. 25.

CONCLUSION

Leaders have a key role in responding to the immediacy of the crisis while leading the required transformation of their organisations to adapt to the next normal. Resilience, speed over elegance, clarity of decision making and communication, empathy and bounded optimism are all vital leadership traits in this situation. Leaders going back to core values and purpose at a time of crisis is also paramount. Importantly, there is a need for leaders to shift their mindsets when navigating their organisations from the 'respond' to the 'recovery' and 'reimagine' phases of this crisis.

It has been said "there are decades where nothing happens and there are weeks when decades happen."¹² Clearly, this current period is a time of exponential change and many organisations have demonstrated agile decision making in the immediate response to the crisis. Those organisations that continue to adapt and change proactively will be the success stories of the future.

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