

Responding to Crises and Economic Recessions[^]

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The Covid-19 pandemic has impacted a global economy that was already stuttering. Growth was slowing in a range of countries, exacerbated by trade disputes, critical negotiations and growing indebtedness. The global pandemic has posed an existential threat to many business sectors and enterprises of all sizes, exacerbated by continuing uncertainties over its duration, future mutations and the effectiveness of Government and public responses. It presents national Governments, corporate boards, the professions and others with formidable challenges. Many of these require collective responses. Decisions have often had to be taken quickly and without the benefit of lengthy analyses of the relative merits of different options. Where and how could management services practitioners help responses to economic shocks?

The contexts in which many practitioners work have changed. Traditional governance and management arrangements sometimes struggle to deal with fast moving and disruptive shocks to economic and social systems. A pandemic can expose the vulnerability and lack of resilience and flexibility of many business models, lean operation and extended and international supply chains, when countries and some companies prioritise safeguarding their own interests. With the focus on Covid-19, will other threats such as global warming be overlooked and put on the back burner? Is the pandemic a wakeup call? Could this be an opportunity to rethink business models, direction, purpose and priorities and accelerate transition to a more sustainable development path?

Entrepreneurs, corporate boards and public, private and voluntary organisations have reacted to the spread of Covid-19 and its impacts upon those they serve and to Government actions. In some countries and for periods, new measures have been announced on a daily basis. Responsible boards follow official advice, but they should also do more when necessary to protect the interests of their stakeholders, particularly those who are especially vulnerable and disproportionately affected. In the midst of a pandemic, overnight people can lose their livelihoods and/or jobs and companies can lose their customer base, or be forced or ordered to cease or transform their operations.

Enforced and Serious Reflection

What should management services practitioners working from home and/or self-isolating be thinking about and reflecting upon? Will previous practices return and former requirements remain if and when the pandemic finally passes? Will behaviours, preferences and priorities revert or move in new directions? Might operations and processes that one has analysed and sought to improve or re-design have been replaced by unfamiliar digitally driven alternatives and new business models and services? Will people whose work one studied have been replaced by algorithms and automated fulfilment systems? With hindsight, how resilient and flexible were we in the face of adversity? Could we quickly vary or switch production?

Prior to the pandemic there were sustainability, environmental and climate change concerns and new technologies and business models to consider. Many countries were experiencing a slowdown of economic growth as consumers faced uncertainty, a credit crunch and falling house prices and pulled in their horns. Businesses postponed investments and initiatives that

required the tools and techniques of practitioners because of economic, political and other unpredictability. Certain sectors, markets and countries were on the brink of recession.

At lower levels of activity and confidence, a shock can put pressure on corporate budgets, margins and profits. The pandemic has compounded problems being experienced by many businesses, complicated the situation for policy makers and massively increased debt. Some economic growth is needed to cope with challenges such as supporting an aging population. During a recovery phase future priorities may need to change to put more stress upon considerations such as resilience, flexibility, speed of response, multi-tasking and transformation of activities and processes such as the development, approval, production and distribution of a new vaccine. Rigour and thought may still be required. Many management services practitioners will already be aware of the potential impact of digital technologies on work and productivity (Vial, 2019). Creative practitioners with a forte for designing new and better alternatives rather than improving existing ones should be in demand.

Some Consequences of Previous Growth

Continuous rapid growth can lead to overheating and inflation. It can put pressure on resources, the environment and public services and lead to complacency, a reluctance to consider alternatives and a lack of challenge. Even marginal businesses may be busy if more desirable providers from a customer perspective are unable to keep up with increasing demand. When the going is good, some directors may be tempted to postpone difficult decisions or devote less attention to containing costs or improving productivity. Even though resources might be available to improve or replace them, the priority might be to work an existing production system harder.

In developing countries, an expanding economy can lift people out of poverty, but uncontrolled growth can also strain fragile eco-systems and lead to increased pollution, waste and carbon emissions. Faster growth in a large country such as China can utilise scarce natural capital that is required to improve the conditions of people elsewhere. Are there limits to growth, and in relation to sustainability and global warming, have we already exceeded them (UNEP, 2019)? Is nature fighting back? The dramatic downturn in economic activity due to Covid-19 has revealed the inflexibility of many operations. Initially, distribution and other systems struggled to cope with sudden changes in demand. Practitioners can help to design more resilient, flexible and sustainable alternatives.

Practitioners can also move into new areas. Must there be a trade-off between growth and environmental quality? Was the rapid expansion of cities and urbanisation prior to Covid-19 sustainable? Many management services professionals have experience of redesigning layouts and flows, planning, human behaviour, and reducing waste and increasing efficiency. Their approaches, tools, techniques and rigorous analyses could support the development of more sustainable patterns of urban living. They could become valued members of multi-disciplinary task-forces, project groups and/or consultancy teams commissioned by city authorities and public and business leaders to design and build simpler, healthier, more fulfilling and less stressful and harmful alternatives to current urban models.

Impacts of a Severe Economic Recession

The Covid-19 pandemic has triggered widespread recession. Its impacts and responses to it might prove game changing. How could the measures deployed be improved to cope with

future crises? What steps should public leaders and corporate boards take to review purpose and priorities, transition to more sustainable business and service paradigms and improve future positioning by containing costs, increasing responsiveness, resilience and flexibility and enhancing community, organisational and collective ability to survive further shocks? Some companies use practical and affordable ways of speeding up responses, capturing and sharing insights and superior approaches in ways that improve performance while also benefiting people, organisations and the planet (Coulson-Thomas, 2012a & b, 2013).

Unexpected recessions have implications for public revenues and meeting spending commitments. Actions to tackle problems that could have been funded by higher levels of growth may need to be postponed. Government responses to pandemics such as bailouts and other support to people and organisations can lead to sudden and unplanned increases in public debt that break traditional fiscal rules and provide a further challenge for future generations. Reduced budgets can lead to cuts and delays in areas like maintenance that increase future costs. Windows of opportunity may be foregone or missed. In a recovery phase it may be too late to reactivate old plans.

Prior to the pandemic, technological developments threatened many jobs while uncertain economic prospects deterred business start-ups and initiatives to create new ones. Economic slowdowns can impact on living standards. If an economy grows more slowly than population, many people can become poorer. Total output and output per head may be insufficient to fund investments to reduce harmful emissions and improve productivity and the quality of life. Covid-19 has resulted in unprecedented levels of Government intervention and support and reduced living standards. It has also led to increased volunteering and cooperation. High levels of debt may limit funding for rebuilding and the recognition and reward of public spiritedness. Expectations, priorities and practices may need to change.

Differing Board and Corporate Responses

Where boards have discretion, economic slowdown, recession and shocks can lead to differing corporate reactions. Past experience of responses to tough times gives some clues as to what we might expect (Coulson-Thomas, 2020). Costs may be cut to balance the books, with insufficient thought given to recovery and longer-term consequences and implications. Rapid retrenchment can strain relationships. Some stakeholders may feel they bear an unfair share of the cost of adjusting to a lower level of activity. Some countries and sectors may be impacted more than others. If growth creates expectations of continued progress, slowdown can lead to social and political unrest. The Russian revolution in 1917 occurred when economic slowdown followed a period of growth. Will allowances be made for Covid-19?

Certain people gain from an economic recession. Receivers, liquidators and bailiffs may benefit from the misfortunes of others. There may be increased demand for information and guidance. Economic recessions and shocks can create opportunities as well as challenges. They sometimes stimulate creativity, innovation and a fresh impetus to the search for new income streams and business practices. They can encourage collaboration in the face of common problems. Adversity can break down barriers and result in new and more local connections. A slowdown can release the bandwidth to explore alternatives and, if some funds are available, undertake urgent maintenance and repairs.

A sudden shock can present different challenges and opportunities. There may be more pressure to act quickly, gasp nettles and make tough choices. Some people might be tempted

to continue as before in the hope that market conditions return to a previous situation or trend. There may also be less time for detailed analysis and consultation with stakeholders, or for those who are inconvenienced to make alternative arrangements, or to secure support for a change of direction. During crises, less scope for consideration can result in more knee jerk reactions. In order to move quickly, a smaller and tighter group may need to be involved in decision making. To join a core team, practitioners may have to tolerate greater uncertainty.

Revealing Board Reactions

How boards react to a pandemic or an economic downturn can be very revealing. It might alert Environmental, Social and Governance (ESG) investors to responsible boards worth supporting. How a company responds in comparison with others could be a source of competitive advantage. It is sometimes easier to differentiate in hard times. Benign trading conditions can paper over the cracks of relative deficiencies. If used wisely, recessions provide a pause for reflection and positive steps to secure competitive advantage and transition to less damaging and more sustainable and inclusive business models and patterns of development that put greater emphasis upon the quality of life. A shock might force such a change. Boards that treated stakeholders fairly in tough times may secure their support.

Practitioners could aim to add value in the areas a board might consider first, for example: looking at new and emerging needs; alternative sources of supply and/or means of operation and/or delivery; how to increase productivity to produce more sustainable value from fewer scarce inputs; and considering the relationship and welfare of stakeholders and looking for ways of benefitting them and/or working with them to reduce harm and/or increase social and/or environmental benefits in particular situations. Consideration could be given to the 'new leadership' required to support people during transition and/or transformation following a review of corporate purpose and priorities (Coulson-Thomas, 2012a and b and 2013).

The dilemma for many corporate boards in a recession is reconciling the need for short term savings with the desire to build longer term capabilities to address certain shared challenges and transition to a more sustainable business model. In crises, boards should ideally both address immediate issues and also think longer-term about implications, consequences and possibilities. In periods of adversity it is often easier to distinguish between 'winners' such as top-quartile performers and 'losers' such as those in the bottom quartile of performance. The winners or those most likely to succeed often behave very differently from losers who may trap themselves in a descending spiral of decline (Coulson-Thomas, 2007 and 2009).

Differing Responses of 'Winners' and 'Losers'

Let us start with losers. In tough market conditions these directors and boards tend to batten down the hatches and cut costs. They rush to lay people off. New initiatives are avoided or put on ice. Their focus is largely internal as they manage re-structuring and redundancies. Losers are more likely to be selfish, negative and primarily concerned with impacts upon themselves. Events are regarded largely as problems. When losers cut costs, it tends to be done hurriedly and across the board. When the axe falls they may not know whether a critical success factor or overhead is being taken out. Headcount culls also often fail to distinguish between high and low performers. Hence valuable knowledge and experience can be lost.

In contrast, winners are more positive, proactive and balanced in their approach. They are more likely to consider impacts upon others and the environment and see opportunities to

help others to cope. There may be economies to be made, but their emphasis is upon improving efficiency, productivity and performance rather than cost reduction *per se*. They may also be more open to ideas, alternatives and possibilities. They may look for ways of increasing benefits by doing more with less. They may be willing to consider new ways of measuring, accounting for and reporting performance and assessing success and value.

More successful boards may invest to increase flexibility and resilience, secure an advantage or higher return, or deliver more socially responsible outcomes. They seek opportunities to re-position and be better equipped to capitalize upon a resurgence of economic activity. They are more likely to recognise that customers and others may also be impacted. They look for business opportunities to help them adapt. Supporting people through hard times can help to build loyalty and trust. Winners assess trade-offs and opportunities to redeploy expenditures to improve overall effectiveness or change direction. They are more likely to identify and protect high performers and areas that are strategic. They capture significant know how and the superior approaches of 'superstars' to reduce the impact of a loss of key personnel.

Raising Fundamental Questions

A pandemic and economic shock might be game-changing. During a crisis one needs to ensure that dealing with immediate issues does not drive out longer-term thinking and fundamental questions. A recession can reduce negative consequences of unrestrained and irresponsible growth, such as the loss of biodiversity and natural capital, increased pollution, greater environmental degradation and further production of greenhouse gases that contribute to global warming. Might restoring rapid economic growth with a past development model be neither desirable nor sustainable?

Much depends upon the situation at the point when slowdown occurs. A shock could be used as a warning sign of the scale of readjustment needed if more stakeholders decide that activities such as burning fossil fuels are no longer acceptable. If plant is coming to the end of its natural life, lower demand may strengthen the case for a more sustainable development path. Scaling back might provide an opportunity to cull certain damaging activities. In a recession the economic case for them may be weakened. To what extent might production of a lower level of output with a different mix of activities, as some areas decline more than others, be less damaging and more sustainable?

The consequences for global warming of higher rates of growth with current consumer priorities, approaches to production and business models could be serious. More widespread aping of the lifestyles of the wealthy in developed countries could endanger our futures and further alienate younger generations. Might dealing with the impact of Covid-19 use funds that could have been invested in innovation and transition to more sustainable approaches, models and ways of life? Alternatively, might the pandemic highlight the importance of communities and increase the allure of simpler, healthier and more fulfilling lifestyles?

Longer-term Considerations

Management services professionals may need to switch attention from the analysis and improvement of 'what is' to the design, scoping and planning of 'what could or should be'. Negative consequences of bounce-back growth could be addressed by adopting less damaging business models or innovation in methods of production. Business leaders could work towards a more caring, collaborative, resilient and responsible form of capitalism. As

expectations, requirements and priorities of stakeholders, the public, Governments and regulators change, boards should review corporate purpose, their responsibilities and priorities, the strategic direction they set and to whom and for what they feel accountable.

How directors react to a recession might help CEOs, board chairs, practitioners, consultants, investors and other stakeholders to: assess corporate capability to deal with events such as a pandemic, a scientific or technological revolution, or radically different Government policies or business models; and identify the help and support that might be needed. How quickly do boards respond? Are they overly concerned with protecting existing activities, interests and investments? Where do customers, employees and other stakeholders and sustainable development considerations feature in their deliberations? Do they consider longer-term implications and possibilities? Are they prepared to change direction? Will practitioners rise to the challenge of helping them to adapt, change, transition and transform?

Supporting Renewal and Recovery

A global pandemic provides an opportunity for public, commercial, professional and voluntary organisations to respond, re-boot, re-purpose and re-engage with their stakeholders and the communities, societies and sectors in which they operate. Some professionals may get in the way of what needs to be done. Others may catch the moment and earn the trust and respect of the concerned, excluded, exposed, worried and vulnerable. Supporting a collective response to Covid-19, pursuing social as well as economic aims and working to ensure a more sustainable and inclusive future could make people more aware of the role that caring capitalism could play. Management services practitioners should be open-minded, flexible and willing to adapt their approaches, tools and techniques to new situations and imperatives as they apply themselves to supporting and enabling responsible and sustainable recovery.

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