Developing leaders for a world of uncertainty, complexity and ambiguity

From December 2008 to May 2009, Andrew Day and Kevin Power interviewed 50 executives and senior managers about how they were experiencing the impact of the economic crisis on their organisations. They summarise their key findings and outline the implications for leadership learning and development.

A world of turbulence, uncertainty and ambiguity
Our research highlighted how leaders were thrown into a world of uncertainty, ambiguity and turbulence by the economic crisis. They commented on the speed, breadth and depth of change as being greater than anything they had previously experienced. This resulted in a disruption to the stability and certainty of their work environments. Business processes, planning routines and systems in many organisations lost credibility as demand for their products or services changed dramatically. All the participants in our research commented on the heightened levels of anxiety in their organisations as a result of the crisis. In this turbulent context, leaders were confronted...
with the challenge of how to make sense of their worlds. Difficult and challenging questions included: How do I understand what is happening in our markets? How is our world changing and what might it look like in the future? What implications does this have for our business? What risks and opportunities does it present to us? And, perhaps most difficult of all: what if anything, could or should we do to respond to events?

**What does this mean for the leaders of the future?**

We are convinced that the world of organisations is unlikely to return to how it was before the ‘crisis’. We sense that we are witnessing a shift towards a business environment that is more typically characterised by rapid change, discontinuities, and ambiguity. This might be one consequence of a highly complex, interconnected, global economic and social system. We therefore believe it will necessitate specific capabilities which are not readily apparent in organisations today.

Rapid and abrupt changes in an organisation’s environment require creative, innovative and adaptive responses. Our insights from the research suggest that the future learning and development of leaders must help them to develop the capacity to:

- **Take an ecological perspective** on the role of their organisation within an interconnected web of interdependencies that stretches beyond the usual scope of ‘economic interest’
- **Help people to make sense together of events and the rapid changes that they are experiencing**
- **Understand and work constructively with acute anxiety states**, including paranoia and fear, provoked by periods of turbulence and disruption.

We will discuss each of these three capacities in the following pages.

**Taking an ecological perspective**

The economic crisis has revealed the degree of interconnectivity between organisations, sectors and markets across the world’s economies. The near collapse of the global financial sector was the result of a tight web of interdependencies and collective behaviour that was based on deeply flawed economic assumptions. For example, unprecedented shifts in the volume of trade between the United States and China had huge repercussions for the world’s logistics industries. The price of cargo has collapsed in response to the fall in demand for consumer products in the United States, not unrelated to the sub-prime effect on the housing market: in June 2008, the cost of a dry cargo vessel was $233,000 per vessel; by December this had fallen to $2,330. The International Airline Association reported a 22.6 per cent decrease in air cargo in the first quarter of 2009 and similar disjunctures have occurred in other global industries.

Aside from the potential for further growth, a key rationale for global expansion historically was to spread risk. Yet, what has been revealed is that the ‘forces’ of globalisation have paradoxically resulted in no safe havens from recession. As a director in an international property business remarked: “Our acquisition strategy was based on the assumption that the European commercial property and retail sectors were decoupled from the North American and Asian economies. How wrong we were.”

Our research demonstrates the importance of leaders being able to look beyond the immediate horizons of their familiar business sector and market boundaries. In a turbulent and changing market, organisations cannot make assumptions about how customers, end consumers and other stakeholders are being affected and how they are choosing to respond. Waiting until they have responded can be too late and too risky. Developing an understanding of how relationships and patterns between and across sectors are changing is fundamental to anticipating
and seeing possibilities early. This way of thinking is a fundamental shift from traditional linear, cause and effect ways of understanding the world. A reliance on analysis and statistical data works in relatively stable environments where models and frameworks based on what worked in the past are helpful. In turbulent environments, data and analysed information are either not readily available or no longer valid because ‘non-linear dynamics’ have changed the relationship between socio-economic forces.

### Ecological vs analytical thinking

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<tr>
<th>Ecological</th>
<th>Analytical</th>
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<tr>
<td>Looks for patterns and interdependencies</td>
<td>Values historical data and analysis</td>
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<tr>
<td>Assumes complex, non-linear relationships</td>
<td>Identifies problems and solutions</td>
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<td>Focus is on description rather than explanation</td>
<td>Assumes cause, effect and linear relationships</td>
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<td>Values curiosity, insight and intuition</td>
<td>Reduces phenomena down to individual issues</td>
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<td>Works creatively with paradox, uncertainty and contradiction</td>
<td>Seeks to restore or improve on the status quo</td>
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<td>Extends peripheral vision beyond traditional boundaries</td>
<td>Depends on frameworks, models and tools</td>
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<td>An interest in WHAT</td>
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An ecological perspective is perhaps a counter-intuitive way of thinking. It requires leaders to work with the multiple phenomena that represent the interaction of individuals, organisations, societies, cultures and environmental contexts. This is not a new idea in other fields of research. Gregory Bateson (1904 – 1980), the cultural anthropologist and holistic thinker, as far back as the 1960s observed that the Western mindset encouraged people to think ‘as if’ they existed outside of their worlds rather than participating in the wider ecology of which they are part. His concern was that our predisposition to want to separate ourselves from nature would inevitably lead to disaster for the human race.

After a year of record demand for its products, in early 2008 a division of ‘Euroco’ stepped up its production capacity to meet the backlog of orders which were still in the pipeline. It continued producing at this rate to maintain the required inventory levels so that supply chains could meet projected sales forecasts. However, by October 2008 the dramatic downturn across certain industry sectors finally revealed a sharp decline in orders. This was not a surprise to anyone, especially customer facing functions, and yet it took three months before production could be finally stepped down to reflect the new trading conditions. It was not until Quarter 2 in 2009 before the business had started to re-stabilise. The impact on profitability has been so significant that various departments and trading partners which had distant and transactional relationships have started to work more closely together. They are now discovering the value of being more curious about observations and experiences from colleagues, intermediaries, customers, other stakeholders and the wider landscape of economic relationships and environmental issues. As one executive put it: “Perhaps we had become complacent and could not see what was happening for our end customers and the context of what was changing in their worlds.” The aim with the new approach is to create a culture of responsiveness, proactivity and intelligent adaptation.

In the context of organisational and business life, the adoption of a more holistic perspective requires a shift from left brain to right brain thinking; a trusting of the intuitive, emotional aspect of leadership and integration with the rational, logical side. Leaders of the future will need to develop their capacity to see how their organisations participate in complex, non-linear relationships which are inherently complex, non-linear relationships which are inherently
unpredictable, paradoxical and recursive. This is not easy stuff and the desire for certainty and solutions driven by shareholder (and other stakeholders) demands is a counteractive force against a more open ended way of seeing the world. But the scale, complexity and elusiveness of the current economic context have perhaps been a helpful provocation in inviting business leaders to think differently this time around.

Ecological thinking requires leaders to:
• Notice patterns and connectivity between sectors, markets, customers, suppliers, consumers and the wider communities/environments of which they are part
• Establish cooperative relationships with suppliers and customers which enables the exchange of perspectives and experiences
• Trust their intuition as well as utilising analysis and notice the ‘soft signals’ that would otherwise be ignored
• Explore possible, probable and unlikely scenarios to expand awareness of how the environment could change
• Question the long term repercussions of strategies and actions for the health of the wider ‘ecosystem’ that supports the existence of the organisation.

Making sense of rapid and abrupt change
Our research highlighted that many executives were struggling to understand and make sense of how the economic crisis was impacting their organisations. What’s more, they were finding that a whole range of stakeholders, including employees, suppliers, shareholders, boards etc. were looking to them to give an account of what was happening. Leaders played a critical role in helping different stakeholders to make sense of the dramatic events and changes that their organisations were encountering. They did this by engaging in what we understand to be the process of sensemaking. This is a social and psychological process that people adopt when they experience an unexpected or ‘unintelligible’ event. In turbulent and unpredictable environments, leaders need to create a coherent strategic narrative across the organisation which helps employees make meaning of their work and enables collective and coherent action. They need to engage in reflection and encourage their employees to do the same. Blind action, without standing back and reflecting, is highly risky in such scenarios.

Sense making requires leaders to facilitate conversations between individuals and groups who hold different perspectives or vantage points on what is happening, in an attempt to develop a shared understanding of what is happening in markets and in the organisation. This involves people sharing their perspectives, hunches and opinions and listening in return to the perspective of others. It is through such ‘interactive exchanges’ that new understanding and meaning emerges which then becomes the basis of creative adaptation and action.

In organisations that experienced perhaps the most dramatic changes in their markets, leaders had to create the environment for their people to seek out information, to engage in conversation with their customers and suppliers and continuously share any insights that were emerging. For instance, in several large professional services firms, teams were encouraged to talk explicitly with their clients about how they were being impacted by the crisis and to reflect back to those clients (as well as their colleagues) what they were learning. This was a form of sense making practice within and outside the organisation as a live emergent process. While the aim was to identify risks and opportunities, it also ‘legitimised’ the questioning of assumptions, beliefs and ways of working.
A managing director of a European consumer goods business found he was unable to cope with the crisis that his business faced in early 2009. His success in his career had been built on his ability to make improvements in operations through problem identification and rational analysis within an established operational framework. His leadership style was to take responsibility and think through issues by himself. He is a convergent thinker, who tends to make decisions quickly, close down options and move swiftly to action. During the crisis, his business experienced an abrupt fall in revenues as demand fell and prices collapsed. He was unable to make sense of the situation through analysis of data. In a highly anxious state, he lost sight of the bigger picture and became highly invested in a course of action which was not addressing the collapsing income of the business. As his anxiety increased he retreated from his leadership team and took on more and more responsibility. This left him feeling alone and isolated. When he reflected on his leadership after the crisis, he identified that he had not engaged his organisation in making sense together in the midst of the crisis, took too much responsibility for finding a solution himself and did not trust his intuition or that of his colleagues. Their anxiety prevented them from developing a shared understanding of the situation and agreeing how they could act as a group to address their challenges.

The process of sense making requires leaders to:

- Create space for teams to stand back and share their experiences and reflect on what they are noticing and how their interactions are changing with customers, suppliers, shareholders etc.
- Encourage curiosity and the questioning of hitherto unquestioned assumptions and beliefs about the organisation, its role and purpose, and ways of working

  - Invest time in establishing networks beyond the limits of the organisation and recognise the importance of these networks for making sense of the extended environment
  - Connect individuals and groups across functional and professional boundaries
  - Encourage insights into customers and markets to inform product design, operational activity and services to customers.

Working positively with anxiety

The economic ‘crisis’ launched a wave of anxiety across organisations. We understood this as a response to the uncertainty, ambiguity and the fear of what might happen. The things that people had counted on were suddenly up for grabs and many of the givens of daily life were at risk of unravelling. Employees’ most significant fears were about losing their job. In organisations, anxiety is contagious and rapidly communicated from one individual or group to another. Rumours circulating in the organisation, industry or media therefore further amplified anxiety levels. We observed that under these conditions in many organisations people retreated to familiar and habitual responses. This is consistent with psychological theory and research which highlights how people attempt to reduce their anxiety when confronted with perceived dangers by repeating responses which have proved to be successful in the past. If you like, people desperately attempt to keep things going as they always were despite the fact that everything is changing around them. This can have problematic or disastrous consequences because the necessary process of sense making is averted.

A second damaging response to anxiety happens when individuals and groups start to blame and attack others for their predicament. This response serves to help maintain a positive self image and identity but at the expense of others who are labelled as the ‘problem’. In our research, we came across a number of stories which typified fragmentation where there were examples of blame, distrust and helplessness in people’s reactions.

In one organisation, a group of managers from a division were struggling to make decisions about how to respond to the impact of the crisis on their organisation. The group was very anxious about their future order book and met to decide how to act. We observed some individuals withdraw from the discussions, others became critical of past decisions and colleagues; whilst the group as a whole found it almost impossible to stay with a subject long enough to make sense of it within the group. Our overall sense of the group was one of fragmentation and helplessness in the face of overwhelming anxiety. In subsequent conversations, participants in the meeting expressed anger and frustration, fear about what would happen if they could not organise themselves more effectively, and feelings of helplessness about the situation.

We also heard accounts of organisations where people were taking a proactive response to ‘the crisis’ by showing initiative, taking responsibility and attempting to find creative ways to adapt to the changing environment. We could label this as a ‘transformational’ response. In these organisations, leaders played a central role supporting people so that they were not overwhelmed by anxiety. They helped people to identify where they could make a difference, engendered a sense of hope that it was possible to influence events, and did not resort to blaming individuals for the organisation’s predicament. In these situations, we had a sense that people pulled together in adversity to support each other and to take collective responsibility. This created an environment where
highlight where action needs to be taken and providing clarity about how individuals can contribute. This includes being clear about possible opportunities for the organisation
- Instilling a sense of ‘hope’ and ‘confidence’ in the organisation that by working together the ‘crisis’ can be addressed
- Creating a ‘safe’ psychological environment where people do not feel attacked or blamed for problems but encouraged to take responsibility and act where they have influence
- Developing trust in the organisation by being visible, open, showing a concern for people, being transparent and congruent.

Conclusion
In the future, organisations are likely to find that they are confronted with greater turbulence and uncertainty. Those responsible for the learning and development of leaders will need to develop their capacities to help their organisations function in such an environment and engage in intense periods of change and transformation. Our research suggests that these capacities will include the ability to: (i) see ecologies of relationships and interconnections beyond the usual scope of interest; (ii) engage in sense making as an emergent and collaborative process; and (iii) manage acute anxiety states so as to provide the energy for creativity and adaptive responses. This represents a paradigm shift for how many of us think about leadership in organisations. Such a shift cannot be taught to leaders in the traditional way; rather it can only be developed through hard won experience and experiential learning that confront leaders about their “deepest” assumptions about the world and challenge them to access, and make use of, their own emotions and feelings.

Leaders contain anxieties by:
- Being ‘fully present’ and meeting the organisation in its anxiety (rather than avoiding it)
- Being empathic but not taking responsibility for others’ anxieties and emotions
- Helping individuals and groups to make sense of difficult situations by sharing information, their assessments and assumptions and listening to people’s experience
- Providing clear direction and boundaries to the organisation which

References

Endnotes
i. The first known reference to the term “ecology” is associated with Ernst Haekel who in 1869 used this term which he defined as “the economy of nature.” The ecological perspective can therefore be traced back to biological theories that explain how organisms interact with each other and their adaptation to their environments.
ii. A Gallup poll conducted at the turn of the year showed that 45 per cent of US workers believe they face a greater risk that their job will change or be eliminated.

Andrew and Kevin are currently working with a number of clients who are exploring how to develop their capacity to respond to turbulent business conditions. If you would like to know more about this work, or the research generally, then they can be contacted at their email addresses above.