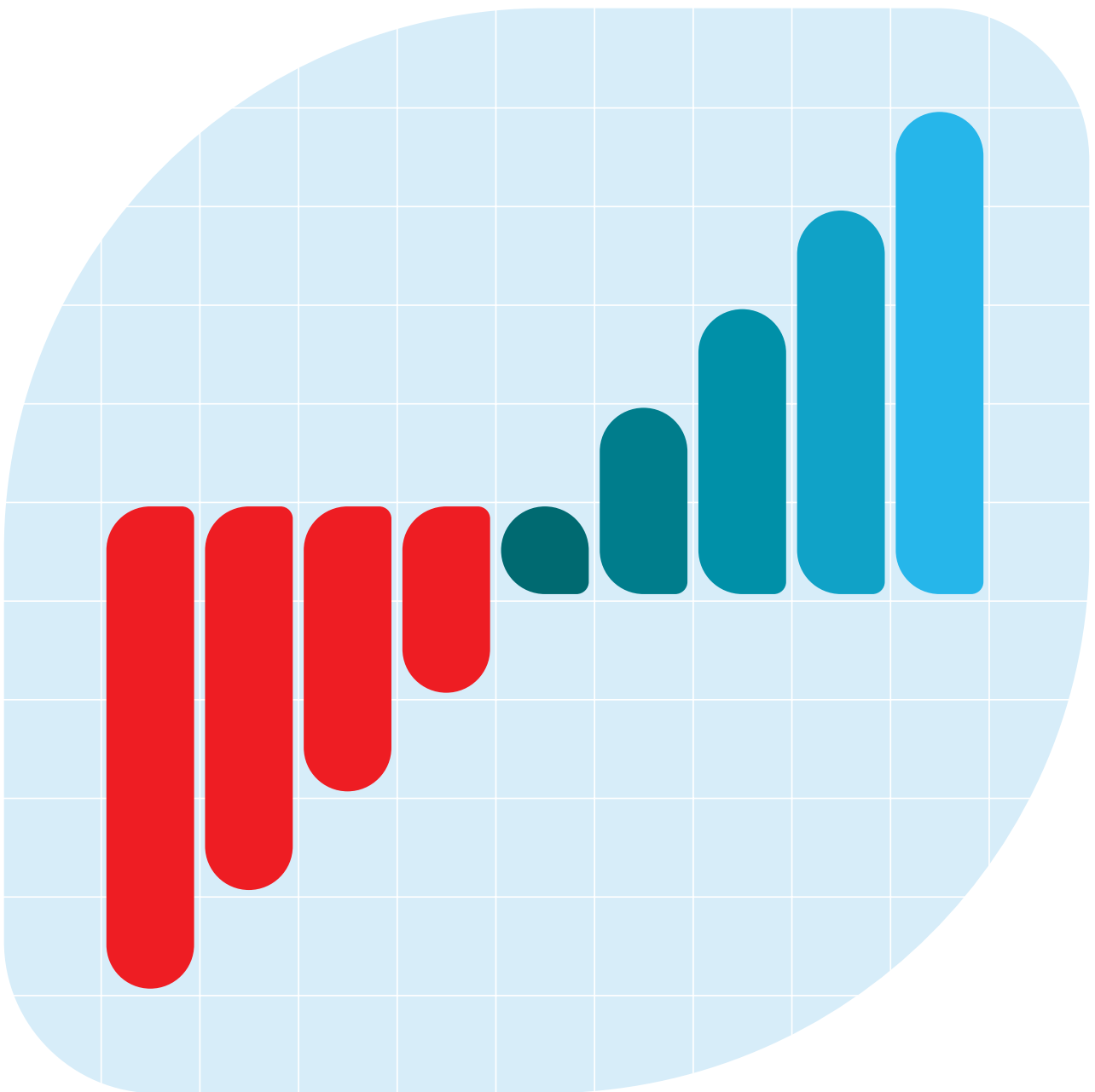


Delivering in a downturn: What does it take?



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The UK is experiencing one of the most severe economic downturns in living memory. In order to emerge from this crisis, as quickly and as strongly as possible, we need managers to be well equipped to lead their organisations through these difficult times.

But this is the first time most managers have experienced a severe recession. Having the leadership and management skills and attributes necessary to perform well during an economic boom is one thing, but are those the same attributes that are required now? Do these managers have what it takes to respond to the challenge?

ILM has a clear purpose – to develop and sustain a leadership and management community that will create dynamic and successful economies and societies. As part of this remit we set out to find out what would enable managers to operate more effectively in the current environment.

To do this we spoke to the people best placed to know what is needed: the chief executives of the companies that, past experience shows, are the engines of future economic growth – the small and medium sized enterprises that make up 99.9% of UK businesses.

In asking for their views we explored two main issues – the personal characteristics CEOs want from their managers and the knowledge and skills they require to enable their organisations to survive, even to prosper – recognising that a recession still provides opportunities to those prepared and equipped to seize them.

The results were both inspiring and insightful. The CEOs we spoke to want their managers to exhibit a set of qualities that ILM considers intrinsic to the leadership role – a strong, purposeful approach, the ability to adapt and develop innovative and effective solutions to problems, and a positive outlook. But CEOs also want some clear, practical skillsets as well, skills that ILM sees as fundamental to the management role. They want managers with good people management and communication skills, who can control costs and budgets, and who are able to build effective client relationships.

In the current climate, CEOs need managers who combine a leadership mindset with a management skillset. They want a management team that tackles the challenges of the downturn with the sense of purpose, personal resilience, adaptability and innovation of a leader, together with the financial discipline, people management and customer focus of a manager.

The research shows that organisations need a combination of both leadership and management to be effective in a downturn, and the two areas are inextricably interlinked. Now more than ever we need to develop managers who can lead, and leaders who can manage. Because it is those businesses with the right mix of leadership and management capability that are best placed to survive the recession and capitalise on the opportunities it presents.



Penny de Valk
Chief Executive
Institute of Leadership
& Management
April 2009

Executive summary

The UK is in the grip of the worst economic downturn for 70 years. As output shrinks, retail prices fall and unemployment climbs ever higher, the business outlook is set to remain difficult for many months to come.

The fortunes of the UK economy are tied inextricably to the fate of its small and medium sized enterprises. These companies, with less than 250 employees, make up over 99.9% of all UK businesses and employ 60% of the private sector labour force. They are the lifeblood of the economy, and have driven decades of growth. Over the years many of these SMEs have developed a set of leadership and management attributes and skills that have enabled them to prosper in the good times. But now they face a whole new set of challenges.

ILM set out to identify the critical characteristics, skills and knowledge that managers most need today, in order to help their organisations survive the current recession. We spoke to over 50 CEOs from small and medium sized enterprises (SMEs) to ask them what they want from their senior and middle managers in these difficult times.

As part of the research we also asked the CEOs how they feel about the impact of the recession on their business. Remarkably, they are overwhelmingly confident about the future, with over 80% expressing optimism about their business prospects. This optimism extends to their view of the recession as an environment in which there are still opportunities to be exploited, providing that their managers have the appropriate characteristics, skills and knowledge.

The bosses we spoke to detailed a range of personal characteristics, management skills and knowledge that they deem essential in a downturn. These are the areas which organisations will need to focus on improving in their management teams if they are to survive the recession and emerge well placed to grow and compete in the future. Otherwise, CEOs may have less reason to be optimistic after all.

Research findings

The research focused on two main areas: personal characteristics, and management skills and knowledge. Responses from the CEOs reveal some strong and consistent themes, detailed below. These are the aspects of leadership and management that managers at all levels of organisations should be seeking to develop and display in the current climate.

Personal characteristics

A strong purposeful approach.

During an economic downturn businesses have to overcome many obstacles. Over a third (35%) of CEOs said that it is most important for their managers to have a strong purposeful approach and be resilient, tenacious, disciplined, committed and driven.

Innovating out of a recession.

The ability to innovate and be creative is an imperative during a recession. Almost a quarter (23%) of CEOs said that it is most important that managers are quick to adapt to changing circumstances and can develop innovative and effective solutions to problems. They list characteristics such as innovation, flexibility, creativity and problem solving as highly desirable.

Maintaining a positive outlook.

Reflecting their optimistic outlook, 17% of CEOs said that the most important personal characteristic a manager can have is positivity. They want managers to be confident, optimistic and have a can-do attitude, believing such people are far more likely to fight for a company's survival.

Pessimism is a contagious and destructive influence, said the CEOs. It paralyses organisational decision-making processes and hinders chances of survival. Optimistic organisations are better positioned to take advantage of opportunities presented during a recession.

Management skills and knowledge

People management skills.

Encouraging a positive, innovative and motivated workforce requires sophisticated people management and communication skills, and 27% of CEOs rate these as the most important skills for managers. CEOs need managers who can motivate, empathise and inspire others.

Fears of redundancy and the pressures of operating in a downturn stretch workplace relationships. The ability of managers to deal with these tensions is crucial to business survival.

Controlling costs and budgets.

CEOs want a financially literate senior team that can exercise financial control and discipline, and demonstrate excellent financial management and budgeting skills. The ability to control costs and budget was considered most important by 22% of CEOs.

Managers must be able to analyse and understand financial data, and to use this information to make informed financial decisions. There must be a focus on the top and bottom line, internally on the business, and also externally on the financial health of suppliers and customers.

Building client relationships.

The ability to build better customer relationships was rated the most important skill for managers by 11% of CEOs surveyed.

Managers must understand the markets they operate in and how the recession is affecting their customers. The senior team needs to resist the pressure to become too inwardly focused. The ability to seek out and capitalise on new business opportunities is crucial. CEOs need managers who can deliver, when the opportunity arises.

The research clearly demonstrates that there are specific and distinctive characteristics, skills and knowledge that will help managers steer their companies through a recession.

With so many CEOs confident of their SME's prospects in the current environment, there is a clear consensus that the downturn could present a real business opportunity. But organisations looking to survive the recession, and hit the ground running when the upturn does arrive, would be well advised to focus on improving management and leadership competencies in the key areas identified by the CEOs in the survey.

The business context

It is a tough environment to do business in at the moment. The UK's main economic indicators make for depressing reading. In February 2009, Retail Price Index (RPI) inflation hit zero, placing the UK on the precipice of deflation.

Figures from the Bank of England showed that the level of unsecured debt, in the form of personal loans and credit cards, fell for the first time since April 1993. Office of National Statistics figures showed that the UK economy shrank by 1.6% in the last quarter of 2008.

The CBI's Monthly Industrial Trends survey was particularly disheartening. Manufacturers' expectations for output volumes over the next three months equalled the survey's record low in September 1980. Export orders were the lowest since October 1998, demand for UK manufactured goods the weakest since January 1992.

Some organisations in the UK will fail during the current recession. It is an inevitable and unfortunate consequence of the financial crisis. Of the businesses that do close their doors for the last time, a large percentage will be small and medium sized enterprises that employ fewer than 250 people.

These businesses, currently numbering 4.7 million or so in the UK, represent over 99.9% of the total number of UK businesses and employ 60% of the private sector labour force. SMEs are the engine room of UK enterprise, and although their reliance on short-term bank finance makes them especially vulnerable to the credit crunch, it is these businesses that the UK will rely on to lead it out of recession.

Fortunately, despite such difficult economic conditions, many SMEs will not only survive, but grow and prosper. There are several reasons why some organisations will prove more resilient than others, but one important factor must be whether an organisation's managers possess the necessary skills, knowledge and personal characteristics to make a difference.

So what are the skills, knowledge and personal characteristics that organisations need in such challenging times? We asked a group of chief executives from SMEs what specific abilities and qualities they look for in their managers during a recession. What are the management and leadership characteristics that help some businesses to succeed where others fail?

ILM commissioned an independent research consultancy to explore the personal characteristics, skills and knowledge areas that CEOs look for in their managers during times of recession.

Over a three-week period during March 2009, FreshMinds Research conducted phone interviews with the CEOs of 52 small and medium sized (20–250 employees) private sector businesses.*

The research sample represents a cross-section of industries and organisation types, including manufacturing, professional and financial services, retail and distribution, care, hospitality and leisure, electronics and IT. Most companies were profit-making, but a few were social enterprises, with their primary goal being to fulfil a social purpose rather than make a profit. However, all respondents were market-driven and market-dependent, and none were insulated from the economic downturn.

Once the interviews had taken place, the CEOs' responses were analysed and the common themes identified. The sample size was large enough to ensure the findings are statistically robust, but small enough to allow us to capture some very detailed comments.

Figure 1: How many members of staff does your company currently employ?

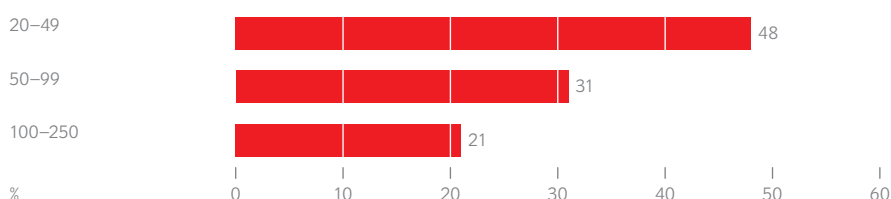
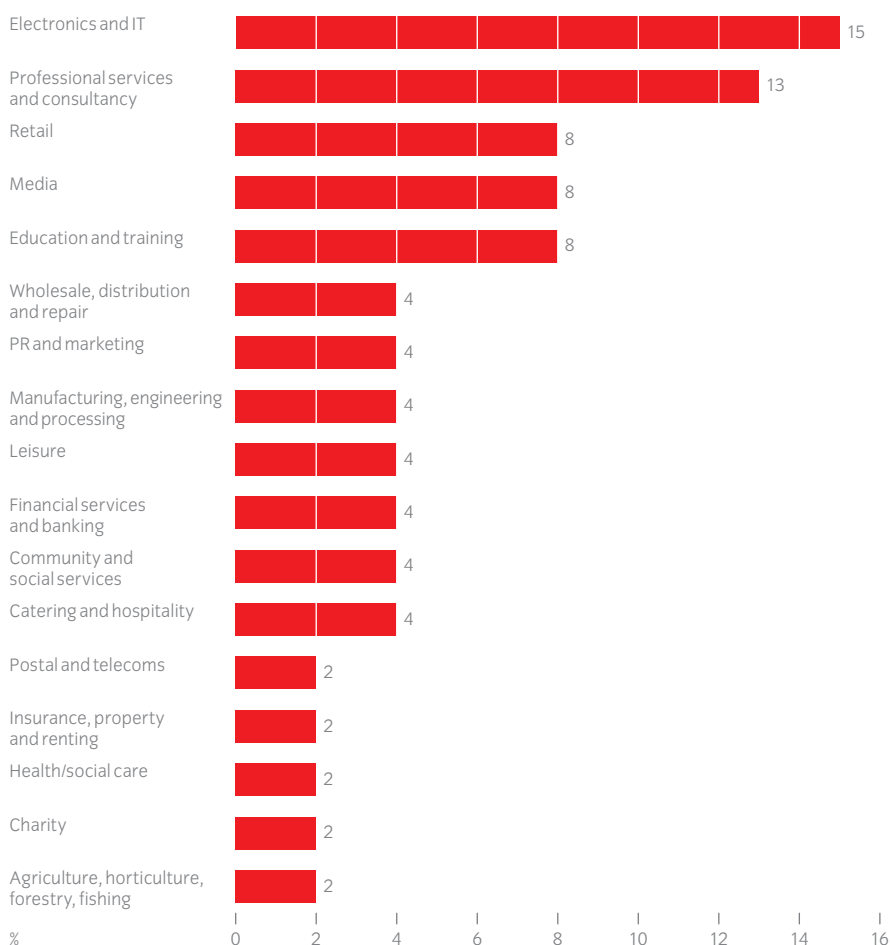


Figure 2: What sector does your company operate in?



*The survey was administered in accordance with the MRS Code of Conduct.

Fighting the fear factor

To gauge the general levels of optimism among small and medium sized businesses in the current recession, the CEOs were asked to indicate how optimistic or pessimistic they are about the impact of the recession on their organisation on a scale of one to ten.

Despite the UK being in what has been described by some commentators as the worst economic decline since World War II, and many more predicting a bleak outlook for some time to come, the CEOs surveyed are remarkably optimistic about the economic climate and its impact on their business.

Over 80% of respondents feel some degree of optimism, with the average score being 6.7. Only two respondents gave a score of less than five out of ten – and no-one was ‘very pessimistic’.

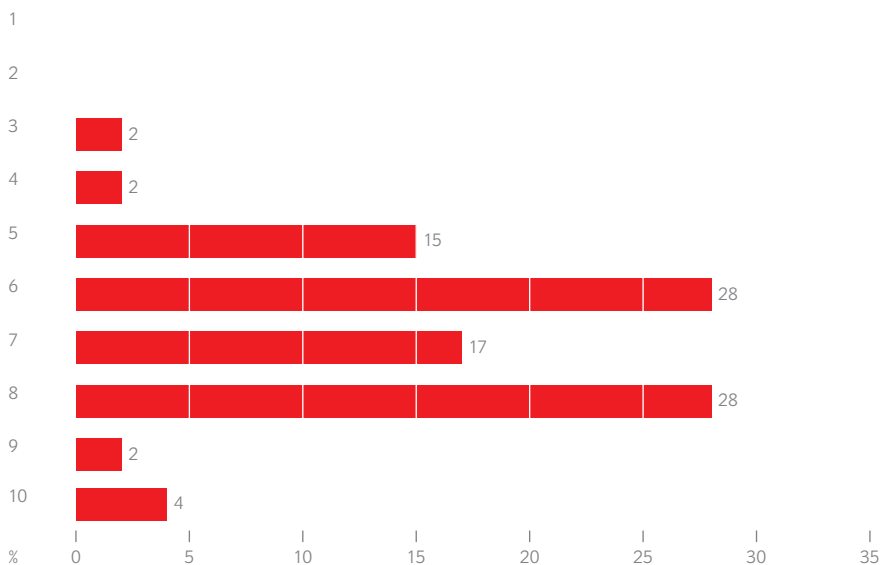
Not only are the CEOs optimistic, they expect their managers to be optimistic and confident as well (see page 11), listing it as one of the most important characteristics a manager can have during an economic downturn.

Such optimism and confidence, as well as other specific characteristics, skills and knowledge identified by the CEOs, is essential for business to make the most of the opportunities that occur during a recession.

A failure to focus on developing these areas could well be the distinguishing factor between those successful organisations that survive and flourish and those that fail.

Figure 3: How optimistic or pessimistic are you about the impact of the recession on your organisation?

On a scale of 1 to 10 (1 being very pessimistic, 10 very optimistic)



What the CEOs said

We asked CEOs what they want from their managers during the recession in two closely related areas: personal characteristics, and management skills and specific knowledge areas.

It is very clear from the research findings that while these two areas were addressed separately they are closely interlinked, and should not be considered in isolation. Personal characteristics shape the way that individuals approach the acquisition and use of skills and knowledge. Equally, through the use of appropriate skills and knowledge, it is possible to encourage and support the development of certain personal characteristics.

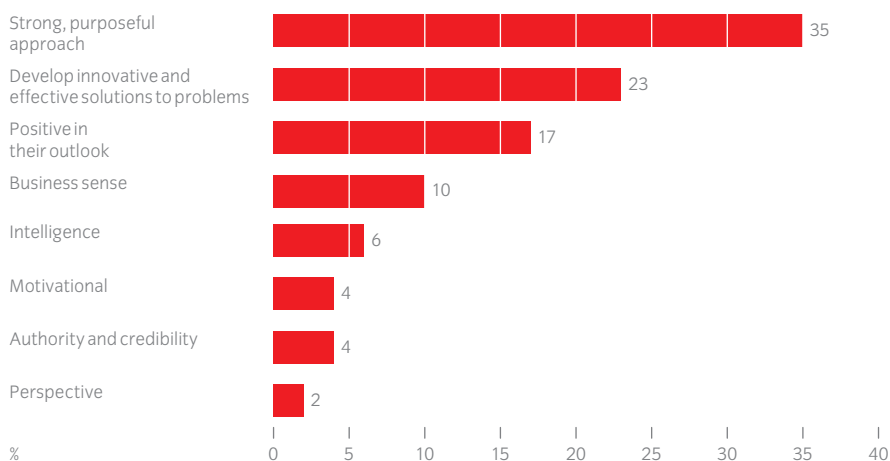
It is also clear that the CEOs' responses relate to both effective leadership and management. And they want this same blend of characteristics, skills and knowledge across their management teams, whether working at a middle manager or senior manager level.

Section one: Preferred personal characteristics

Initially the CEOs were asked to identify the personal characteristics managers should possess during a recession. The responses were then grouped together around a number of distinct themes.

Over a third (35%) of the CEOs questioned believe that their managers should have a strong, purposeful approach (see Figure 4). The ability to adapt and develop innovative and effective solutions to problems quickly was considered most important by 23% of CEOs, while 17% rated a positive outlook as most important.

Figure 4: What is the most important personal characteristic for managers during times of recession?



I A strong, purposeful approach

The CEOs surveyed believe that ‘a strong, purposeful approach’ – as demonstrated by the characteristics of drive, resilience, tenacity, discipline, commitment and initiative – is essential for moving the business forward, overcoming obstacles and making the most of any opportunities that are presented.

Battling through a recession is a long and difficult struggle for many businesses. Recessions create uncertainty, making it difficult for businesses to plan for the future. There is often a tendency to vacillate, and put off decisions. In challenging business conditions, firms encounter many barriers. Managers need drive to maintain the momentum of the organisation, to keep going forward in the face of multiple obstacles, and to relentlessly pursue new business opportunities.

It is also essential to have the resilience to cope with an organisation and workforce under extreme pressure. And the CEOs we spoke to see resilient, tenacious managers as more likely to keep battling and deal with the fresh challenges that the organisation faces.

Stamina and energy are important too, enabling managers to cope with the extra demands made upon them. Some CEOs made explicit reference to the need for a hard work ethic as particularly important during a recession.

By demonstrating a strong, purposeful approach the CEO respondents thought that their senior managers would be able to set an example to others in the workplace, and lead their organisation through the present crisis leaving it better placed to succeed in the future.

“Senior managers need drive to keep going forward in the face of multiple obstacles. They need to keep picking themselves up, and be able to go over, under, round the obstacle and find any way to make things happen.”

“A willingness to keep moving when the natural tendency is to stare like a deer in the headlights.”

“The attitude of being able to cope with whatever life throws at them is really important. They [senior managers] need resilience to be able to keep going when they get really stumped.”

“It is important that our energy levels are particularly high at this time, as things are harder. It demands that we are even more focused and committed.”

“Obviously we want people to be hard working in all economic environments, but a hard work ethic is specifically relevant in a recession.”

II The ability to adapt and develop innovative and effective solutions to problems quickly

Grouped together under ‘adapting and developing innovative and effective solutions to problems quickly’, CEOs listed innovation, flexibility, creativity, problem solving and pragmatism as essential characteristics in a downturn.

Innovation can be seen as something of a luxury, most suited to times when the organisation can easily afford to inject cash into speculative projects. So, when businesses come under financial pressure, there may be a temptation to cut back on innovation driven projects.

The CEOs we spoke to, however, recognise that innovation and creativity translate into competitive advantage. They need innovation and creativity in bad times as well as good, and from all employees, at every level of the hierarchy.

A recession requires organisations to find new ways of doing things, said the CEOs, whether it is managing costs or creating new lower-cost, higher-value services for customers.

Flexibility is another essential characteristic during a downturn. Managers need to respond to constantly shifting circumstances. They must be willing to go beyond their usual brief and take on new tasks and responsibilities as needed, often at very short notice.

Speed is important. In a recession it is no use spending a year developing a great idea. By the time it is ready the company may no longer be in business. CEOs want solutions quickly. The need for speed, said the CEOs, requires a degree of agility, the ability to roll with the punches, react to circumstances, and shift direction when required.

“If people are creative in their thinking then they tend to stick at things. We need to think outside the box when things get tough – if we used to do it one way then we may need to try a different approach.”

“Everything moves very quickly in this climate and we have to be highly responsive.”

“We have to be thinking outside the box at these times. Old ways of doing things have been closed off and so we have to take a more creative approach.”

“The impacts of the recession are severe. You need people who are adaptable, who will respond to new and unforeseen challenges. You’re evaluating what you’re doing, you’re adjusting your service levels and you’re trying to look for opportunities that are coming along.”

III Positive in their outlook

An overriding sentiment among the CEOs we spoke to is the need for a positive approach. Over 80% feel some degree of optimism about the current economic climate, and they expect a similar degree of optimism from their managers.

Their views echo the words of US President Franklin D Roosevelt, who said in his inaugural address in 1933, in the depths of the Great Depression: ‘The only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyses needed efforts to convert retreat into advance.’

Managers cannot allow fear and negativity to take hold in their organisations. Pessimism is seen as a contagious and destructive influence, paralysing organisational decision-making processes and hindering chances of survival.

An optimistic attitude, on the other hand, is highly valued during times of recession. Instead of negative thinking, the CEOs talked about having confidence in the business and a can-do attitude. There is a strong association between positivity and solution-focused, hard workers with a winning mentality.

Many respondents alluded to the opportunities that a recession presents, believing that an optimistic company and managers are better placed to take advantage of these opportunities, survive the recession and be prepared for an upturn.

Maintaining a positive outlook requires a careful balancing act by senior managers, as they need to acknowledge the tough operating conditions, while at the same time inspiring confidence that the organisation will survive.

“You’re trying to make your staff aware that times are not good, which they should know anyway, but display the confidence that you have got a solution, that you are on top of it and that the particular company they work for can handle the recession.”

“There is always light at the end of the tunnel. All managers should be optimistic.”

“Most businesses won’t be adopting a positive mindset; many will be a rabbit in headlights. Companies that develop a positive but realistic mindset will prosper.”

“Pessimism gets in the way of productivity. In a recession people get bogged down in negative expectations.”

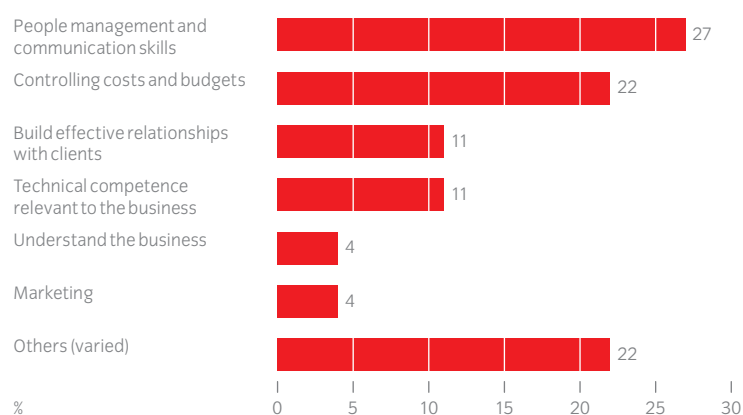
“If you start panicking and running around like frightened rabbits you’ll terrify your workforce.”

Section two: Essential skills and knowledge

As well as asking the CEOs about personal characteristics, we asked what management skills or specific knowledge areas managers need during a recession (see Figure 5). The responses were once again grouped together to create a number of distinct themes.

Top of the CEOs' list of priorities are people management and communication skills, with just under a third (27%) citing this as most important. It is no surprise that financial skills are also high on the CEOs' agenda, with 22% ranking cost control and budgeting skills at the top of their list of desirable skills and knowledge. Closely aligned to people management and communication, 11% of the respondents think building effective relationships with clients is most important.

Figure 5: What is the most important management skill or specific knowledge area for managers to possess during times of recession?



I People management and communication skills

To be an effective manager or leader you need to be able to get things done in collaboration with, and through, other people. This emphasis on relationships as an integral aspect of good management and leadership practice, and vital for navigating an organisation through a recession, is reflected in the survey findings.

CEOs consider people management and communication to be the most important skills for a downturn. These are the skills that underpin the relationships necessary to drive maximum results.

They are especially important in a recession, when fears of redundancy and uncertainties in the business environment can easily lead to an unhappy, fractious, even rebellious workforce. Managers must be able to deal with tensions and conflict in the workplace.

As we have seen, a purposeful approach and a positive outlook are highly prized by CEOs during a recession.

To encourage people to behave in a positive and committed way, managers must have more tools at their disposal than threats and coercion, which are not that effective at the best of times, let alone in a recession when people are under considerable stress. Emotional intelligence is important, with CEOs wanting managers to empathise with and inspire employees.

The CEOs we spoke to also emphasised the need for excellent communication skills. Managers must be able to communicate effectively with employees at a time when events can change very rapidly. Poor communicators will struggle to inspire and motivate others.

“If you scare people or threaten people into performing well, you might keep them during an economic recession, but as soon as they can get out, they will. During an economic upturn you will end up losing good people because they won't want to hang around with your organisation for another hard patch.”

“I don't believe in the 'stick' approach, I prefer the 'carrot' approach. If you're going to get the best out of people you can't do it using threats.”

“It is important to inspire rather than just manage. It means that people want to work rather than being forced to work.”

“We cannot allow the ball to drop, not even for a moment. This means we need managers at the helm encouraging and inspiring the rest of the business. It means that everyone in the business is working to fulfil their potential.”

“When times are hard you have to deal with people in difficult situations, but do it in a way that doesn't scare them.”

II Controlling costs and budgets

It is no surprise that financial management is uppermost in the minds of the CEOs we spoke to. One fifth (22%) of the respondents stated that the ability to control costs and budgets is the most important skill that their managers can possess at the moment. Specific skills and knowledge areas that the CEOs referred to include financial literacy, budgeting, financial management and cost control.

Keeping the company alive means keeping it financially healthy. Senior management must have a sharp focus on the bottom line and be willing and able to take cost-cutting measures. They also need to be financially literate enough to assess the financial health of suppliers and customers.

Financial control and discipline is essential, said the CEOs, as is an overview and understanding of what is happening in all aspects of the business from a financial standpoint. Once budgeting plans are in place and agreed then managers must make sure that they are adhered to.

To keep the business in good shape in the future managers must know how to analyse and understand financial data, and use this information to assess the financial impact of their decisions.

“Profit is the key to survival.”

“Recessions are about protection – keeping the company alive.”

“Make sure that we have proper control of the business with visibility [that] enables people to feel reassured about the future... There is a genuine need to keep an eye on everything.”

“Numbers don't lie. We need to be aware of trends and to be able to adjust.”

“We're pushing down the margin to 3% or 4%. We can only do that if we're on top of financial management.”

“In a small business with a relatively simple set of management systems, you need to be able to analyse data and check that the impact of your decisions are profitable.”

“Credit control becomes far more important in these situations. [It] allows us to trade high volumes on low profit margins.”

III Building effective relationships with clients

Closely allied with the need to be able to manage personal relationships and people within the organisation, is the need to deal effectively with stakeholders, most notably customers, new and existing.

It is very easy to become absorbed with cost cutting and tight financial management, and become too inwardly focused. As well as driving down costs internally, the CEOs surveyed said that senior managers need to look outwards. They must continue to build better relationships with existing clients, being more responsive, adding value and maximising revenue where possible.

New business may be harder to come by, but it is essential that SMEs continue to concentrate on new business development. Managers must seek out and capitalise on new opportunities.

“It’s easy in a recession to become internally focused. It’s important to understand the opportunities and threats of the market and to be passionate about your customers.”

“In a recession it is important to retain existing clients. As there might not be as much new business it’s important to maximise revenue from them. Strong relationships are highly valuable to the business.”

“The recession is affecting our clients so we have to understand how it is affecting them.”

“Responsiveness is going to be really important.”

“Understanding client needs drives the way that the proposition develops. The sands are shifting and we need to be really responsive, looking around more and understanding why our clients value us and how we can drive those relationships forward.”

Conclusion

This research provides a valuable insight into the mindset of the CEOs heading up over 99.9% of UK businesses and employing over 60% of the workforce. At a time of unprecedented economic uncertainty, with the media full of cautionary tales of receivership and redundancies, we were surprised at the high level of optimism and positivity among these CEOs, with many of them seeing the recession as a real opportunity for their business.

The research shows we should be careful not to talk ourselves into making a bad situation worse. Organisations that believe that the sky is falling in will probably be proven right. Those that seek to work their way through the recession have a good chance of doing so, because the opportunities are still there.

But to take advantage of these opportunities, the research shows that businesses need managers with the right blend of leadership and management capability. The CEOs we talked to provided a picture of their 'ideal manager', which presents a clear and unambiguous prescription for success in a downturn.

In particular, the research findings highlight the need for managers to have a leadership mindset. They must have: a strong purposeful approach; an ability to adapt and develop innovative and effective solutions to problems quickly; and a positive outlook, with respect to personal characteristics.

At the same time managers need fundamental management skills and knowledge. They must be able to control costs and budgets, manage people well, communicate effectively and be able to build effective relationships with clients.

What CEOs are describing is essentially an archetypal set of leadership and management skills and qualities. It's clear that, according to these CEOs, the recession does not call for a whole new set of attributes, but a focus on the essentials – managing people and finances, and leading with purpose, innovation and positivity. In the boom years, organisations could survive without this core management capability. In these leaner times, there is no room to hide. It has never been more important to get these fundamentals right.

These findings emphasise the need to continue focusing on leadership and management development, even during in a downturn, when budgets are tight. There is no margin for error during a recession. In a highly competitive economic environment, organisations need their managers to have every advantage possible.

The CEOs' ideal manager combines a leadership mindset with a management skillset, proving that these two areas are inextricably interlinked. While some organisations tend to separate out leadership and management development, ILM believes that when it comes to embedding these key skills and attributes in an organisation, they need to be considered and developed together.

If they are to survive the recession and emerge well placed to grow and compete in the future, organisations will need to improve their managers' understanding of the leadership and management skills identified in this report. Otherwise all that CEO confidence and optimism may well prove to be unfounded.

About ILM

The Institute of Leadership & Management (ILM) is Europe's leading management organisation. We partner with individuals and organisations to help them fulfil their potential and achieve success.

With our broad range of industry-leading qualifications, membership services and learning resources, ILM provides flexible development solutions that can be blended to meet the specific needs of employers and learners. We are also undertaking a significant programme of original research to contribute to our understanding of global leadership and management practice. This will ensure our products are benchmarked against best practice standards and easily tailored to the economic, social and cultural context of individual organisations and their operating environment.

All ILM programmes are built on in-depth research and carefully conceived to meet the skills requirements of the industries and professions in which they are used. ILM's membership packages are tailored to deliver cost effective career-long support and development to managers at all levels.

We operate internationally, improving leadership and management skills, knowledge and outputs across all sectors, from financial services to the armed forces.

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