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Responsible business through crisis

Has COVID-19 changed leadership forever?

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Executive summary

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Acknowledgements

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Executive summary

This report completes a series that has explored the impact of the pandemic on responsible business and leadership. We have lived through an experience that has impacted each of us profoundly in very different ways, and the full extent of that impact on individuals, on society and on business remains ambiguous.

Now, a reset is taking place: around the role of work in our lives, the role that a responsible business plays within its ecosystem, and what responsible leadership looks like in a complex stakeholder landscape. We remain in a state of flux: reconnecting with each other, organisations and communities; re-engaging in 'public' life; and renegotiating what work means.

Drawing on candid reflections from over 150 CEOs, HR directors (HRDs) and leaders, this report brings recent challenges and opportunities to life through the lens of leadership experience. It explores:

- how responsible business has changed in the wake of the pandemic
- how the psychological contract has shifted
- how to embed lessons learned for more responsible leadership
- how the role of HR may change in the future.

Responsible business and leadership in the wake of the pandemic

> *'It's been such a horrific 18 months and yet there's so much positive change to come out of it.'* (HR Director, NHS)

COVID-19 disrupted leaders on every level. They were forced to re-examine assumptions about their organisation's purpose and place in society, as well as their perceptions and actions around responsible business.

Responsible leadership is traditionally seen as being holistic, purposeful, optimistic and active:

 holistic: considers the views of internal and external stakeholders and is based on cultivating and sustaining inclusive and caring relationships

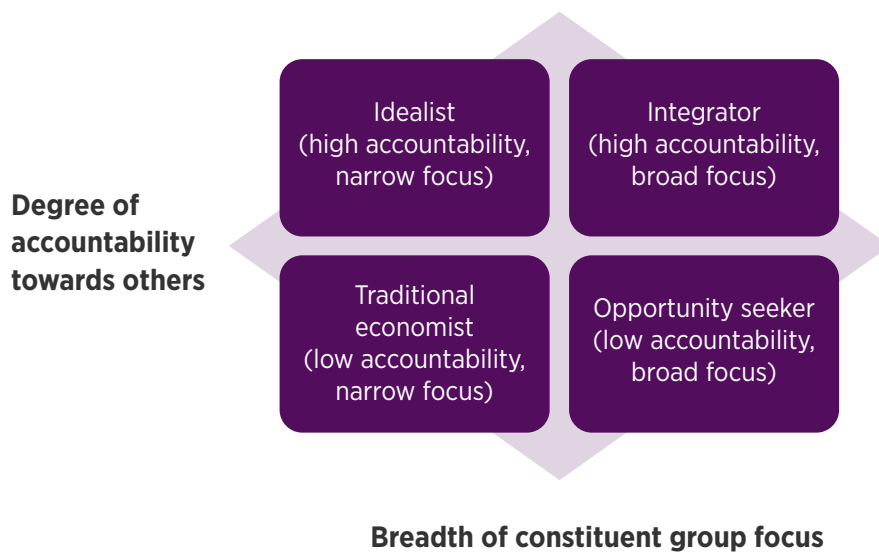 **purposeful:** values-based and driven by purpose, with a focus on morals and ethics

 optimistic: has a desire to create positive, sustained social impact for the long term

 active: a dynamic and relational phenomenon that adapts as the context around it changes

Nicola Pless and colleagues (2022)[1] have identified four types of responsible leadership orientation:

Degree of accountability towards others

Idealist (high accountability, narrow focus)	Integrator (high accountability, broad focus)
Traditional economist (low accountability, narrow focus)	Opportunity seeker (low accountability, broad focus)

Breadth of constituent group focus

- **The idealist:** focused on creating value for stakeholders in need or society as a whole, with a service-orientated approach, and driven by psychological fulfilment.

- **The integrator:** focused on creating longer-term value for a range of stakeholders, and motivated by the importance of shared morals and principles.

- **The traditional economist:** focused on short-term shareholder value and motivated by maximising profit, with little focus on stakeholders beyond shareholders.

- **The opportunity seeker:** focused on longer-term economic value (if beneficial to shareholders) and motivated by the competitive advantage of positive PR.

The challenges of today's world – war, an energy crisis, inflation, a cost-of-living crisis – are perhaps more testing and complex than the 'simple' enemy of COVID-19. But leaders bear an even heavier weight of responsibility and expectation.

How, then, has the experience of the last two-and-a-half years changed the nature of responsible business and leadership?

1   **COVID-19 accelerated and amplified existing responsible business activities:** From tackling climate change to working with deprived communities, the pandemic changed the tone of top team discussions and renewed and strengthened purpose for many: *'The purpose of a company is to serve the society in which it operates.'*

2   **COVID-19 changed leaders' thinking on the interconnectedness of their ecosystems:** It took the blinkers off for many, making clear that organisations are not islands in society: *'It's realising the importance that we have in the broader communities.'* However, this came with dilemmas and the need to balance trade-offs.

3   **COVID-19 reshaped the nature of collaboration across systems:** Partnerships, collaboration and integration came to the fore: *'Forming different types of partnerships is going to be necessary to allow the broader ecosystem to thrive.'*

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[1] Pless, N., Maak, T. and Waldman, D. (2022) Different approaches toward doing the right thing: mapping the responsibility orientation of leaders. In: Pless, N. and Maak, T. (eds). *Responsible leadership*. 2nd ed. London: Routledge.

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4   **COVID-19 increased accountability around responsible business:** From investors to consumers to employees, and the court of public opinion, multiple stakeholders held organisations to account: *'Our employees expect us to have a point of view on society.'*

5   **COVID-19 increased commitment, capability and resilience:** Inequalities came closer to home, and harder to ignore, for senior teams: *'BLM? It caught me unawares. I hadn't appreciated the emotions it had stirred up... It's opened my eyes and changed my thinking.'*

6   **COVID-19 uncovered the idea of a new role for business in society:** This role is more integrated or idealist, to use Pless's terms. This could cause a transformation, but some accuse business and leaders of becoming too 'woke': *'The pressure leaders face is from the shift where the company has been about making money to one where there's this new construct of what the company is.'*

Renegotiating the psychological contract

'There's been a mind shift in terms of "I need to think about myself a bit more because life is too short and times are too uncertain."'
(Chief People Officer, high street retailer)

The experience of living through a pandemic has forced a reassessment of what matters to many, including the role that work plays in their lives. People have chosen to change careers, move away or to opt out entirely. Organisations are in a tighter labour market than in recent memory and the balance has swung dramatically back towards certain employees, with some in-demand skills able to command huge pay rises. In contrast, front-line workers are striking over pay and conditions. Many people are tired and fed up, if not burned out, and leaders are focused on 're-engagement'.

The psychological contract is being rewritten in the most challenging and volatile of contexts. Leaders told us they face the following challenges:

1   **A greater sense of individualism and unwillingness to compromise on working habits that have become personal preference:** While celebrating inclusivity and authenticity, having individual policies for 20,000 people is a practical impossibility. How can leaders balance the needs and demands of the individual with being in service to the organisation as a whole, as a community?

2   **Louder collective voice and industrial unrest:** Britain is facing the biggest wave of industrial unrest since the 1970s. The industrial relations and negotiations skills to navigate through this are sorely lacking in the HR profession and the leadership population at large.

3   **Higher levels of employee relations issues and an increasingly adversarial tone in some parts of the organisation:** Have we lost the art of compromise, forgotten how to 'play nicely with others' after years of enforced isolation – and have managers forgotten how to manage petty grievances? And what impact does the rise of online communication have on ER?

4   **Continued uncertainty around hybrid working, in particular the challenge of persuading people back into the workplace:** Many organisations remain in experimentation mode. Others are going back on original promises of 'complete freedom' in service of the collective needs of the organisation as a community. But its continued prominence as a debate risks alienating the majority of the working population who don't have the luxury of working from home, which creates deeper divisions.

5   **The cost-of-living crisis:** Many lower-paid workers are *'struggling to even survive'*, as one CEO put it. This, in the eyes of many leaders, presents a greater challenge than COVID-19.

6   **The need for employers to be paternalistic:** Is the heightened paternalism many displayed through COVID-19 unrealistic in the long term? The employer–employee relationship needs to be reset to what one HRD described as *'a system of mutual accountability'*, with obligations on both sides.

New forms of responsible leadership

> *'You have to be 100% authentic, you have to demonstrate humility, because the truth is we don't know it all. You have to show leadership that's accessible, connected and honest.'*
> (Nick Hampton, CEO, Tate & Lyle)

Leaders adapted well to the initial shockwaves of COVID-19 and showed themselves more capable, caring and committed to people and society than most might have thought possible. There was a continual shift in behaviours as they responded to the different stages of the pandemic.

COVID-19 was, as one HRD put it, *'Storm Arwen for the mind'.* While it was nothing anyone would wish to experience again, it was something of a learning and development dream. Every leadership development expert who wants to achieve behavioural change looks for ways of 'unfreezing' deep-rooted assumptions. The pandemic certainly achieved this.

So, what new competencies are now needed from leaders to tackle the immediate challenges and also maintain levels of trust?

We identified the following ten leadership attributes, which are covered in more detail in the main report:

- ✓   Remain purpose- and principles-led through continued uncertainty.
- ✓   Maintain increased communication and dialogue, with clarity of direction.
- ✓   Balance vision, pace and ambition while addressing shorter-term problems – under pressure.
- ✓   Lead through trade-offs and paradox.
- ✓   Keep a concern for others front of mind.
- ✓   Create an inclusive community through listening and through a peer-led ecosystem.
- ✓   Champion social justice within the workplace as issues for all to own.
- ✓   Stay humble, honest and human.
- ✓   Check your own integrity every day.
- ✓   Develop a deep understanding of your ecosystem.

A question that remains unanswered is how we can codify these competencies into our leadership development activities. This will be a key challenge for HR leaders going forward.

The future role of HR in responsible leadership

> *'We stand or fall by what happens next. Our voice has not only been heard, but sought. What we do now will define us.'* (Senior HR leader)

It is generally agreed that HR has had 'a good pandemic', stepping up to lead organisations and support individuals through the worst, demonstrating credibility, influence, strategic thinking and leadership capability. HRDs described being 'catapulted' into an arena where their functions command higher levels of respect. In addition, the pandemic has given non-HR leaders a glimpse of the complex nature of the people function.

But in dealing with the socio-economic challenges to come, alongside the complex tensions emerging in the psychological contract, HR leaders need to embody what University of Michigan Professor Dave Ulrich has described as being 'paradox navigators' and 'credible activists'. Many of the issues we face require business knowledge, strategic vision and the ability to understand the vagaries of human behaviour and the impact this has, not only on organisational culture, but in the wider ecosystem.

Some of the challenges, and opportunities, facing the profession include:

- managing tensions
- building management capabilities
- balancing activism with business outcomes
- horizon-scanning
- managing HR's own wellbeing.

HR's performance through COVID-19 has increased expectations of what the function is able to achieve, both from leadership teams and the workforce. The increased expectation has not, however – in most instances – brought with it increased budgets. HR leaders are balancing higher expectations against constrained finances and exhausted teams. In an environment where ESG and, in particular, social issues, are rising up the boardroom agenda, investment in the people side of the business is necessary and HR leaders are in a prime position to make their case for more resources.

If HR leaders take one thing away from this report, let it be this: in today's profoundly challenging environment, a responsible HR function must orientate itself externally. On behalf of their workforces and communities, people professionals must engage with external agencies who are addressing immediate issues, such as the rising cost of living, food poverty and health. The people profession has an opportunity to reshape the world of work for the better, for everyone, but it must look upwards and outwards, taking a broader external view, in order to do so.

Conclusion: everything to play for
What does responsible leadership and 'responsible HR' look like going forward? The world has shifted, not just because of COVID-19, but because the disruption has had a domino effect, changing work and personal lives for leaders and 'followers' alike. This disruption has elevated demands for new forms of responsible leadership to promote fairness and justice, to assuage public fear about the geo-political situation, to tackle the environment, as well as minimise the fallout of a cost-of-living crisis.

But what are the responsibilities of those who do not lead? While we have focused on leaders in this report, if we accept that we live in an interconnected system, then all

within that system must have responsibilities. As one HRD observed, each of us has a responsibility to understand the broader socio-political and economic context in which our lives take place and how our actions shape that context. Everyone has a stake in our potential future and some responsibility in shaping it.

There is a fluidity to responsible business. It is not a static context and does not embrace one rigid moral standpoint. This fluidity gives opportunity to continue to shape and mould what we want the role of responsible business to be.

Leaders can also change and develop. The changing context prompted many to embrace a more empowering and empathetic leadership, and their success has raised expectations of what they might deliver in the future. The billionaire founder of the outdoor fashion brand Patagonia recently gave away his company to a charitable trust committed to fighting climate change: what a powerful example of what responsible, activist leadership can do.

Yet leaders face strong headwinds. Despite the triumph of good stewardship during the pandemic, there are worrying signs that some are retreating to the status quo. Reporting on Davos 2022, journalist Rana Foroohar wrote that she came away feeling that the 0.1% was more out of touch with the state of the world than ever, concluding: *'If the rich don't give a bit more today, they may have to give a lot more tomorrow'* (*Financial Times*, 30 May 2022).

We live in disrupted and contested times, and remain in the throes of a major transition. But such transition comes with opportunity, if we ask: 'What is our part in all of this?' Everyone has agency in an interconnected system to varying degrees.

We can be cynics, critics and bystanders – or we can be activists, contributors and supporters in the development of new forms of responsible business and leadership. What does everyone's responsibility look like going into 2023 and 2024? There is still everything to play for.

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