



## The current economic storm calls for Shackleton-esque resilience

Many organisations are facing the most pessimistic economic outlook in recent memory. We begin this GerrardBown client update by reflecting on the parlous state of the economy by drawing parallels with the extraordinary conditions endured by Sir Ernest Shackleton, heroic Antarctic explorer. We then distil lessons from the Shackleton legend that are applicable to numerous organisations as they grapple with the current economic state. The final section of the update draws upon both Shackleton's story and leading thinking on organisational resilience. We conclude by arguing that clear organisational direction, external responsiveness, a vital workforce, operational flexibility, creativity, innovation and process agility can help to ensure survival, and even prosperity, in the short-term, without compromising long-term prospects.

### We are in a time of economic crisis

In the calamitous events of Wall Street of September and October 2008, the financial-services landscape changed forever. Not since the great crash of 1929 has there been such a shock to the financial system, the effects of which continue to reverberate through the broader economy.

The current economic downturn is distinguishable from other economic lulls by its broad *scope*, *scale* and the *speed* at which it has taken hold.

**Scope:** Currently the USA, Japan and Europe (including the UK) are in recession. In a recent business outlook report, Access Economics highlights that New South Wales is currently in recession, with Victoria soon to follow. Access Economics further predicts that Western Australia, New South Wales and the Northern Territory are also at risk of slipping into recession. In fact, Access Economics is predicting that 2009 holds not simply a recession but the sharpest deceleration Australia's economy has ever seen.

**Scale:** To use the stock market as a yard stick of economic value, on October 10 last year the Australian stock markets suffered their biggest one-day fall ever in terms of value, obliterating more than \$A95 billion and sinking below the \$1 trillion mark. 'Black Friday' as it has become known, will be remembered as the day that stock prices dropped 8.3 percent, reportedly the worst percentage loss since October 1987's crash which saw an estimated loss of \$14 billion dollars of global wealth (\$103B in 2008 dollars). To help stabilise economies, governments have stepped in with stimulus packages, which, even when adjusted for inflation, dwarf the interventions employed during the Great Depression.

**Speed:** The speed at which the current global economic crisis has taken hold is unprecedented. The UK's manufacturing sector is shrinking at a record pace whilst the US has experienced its worst quarterly consumer spending in 28 years. In Australia, in an attempt to turn things around, the RBA has, over the course of four months, reduced interest rates by 3.75%, the biggest easing cycle since the early 1990s (a cycle which lasted for 3 ½ years). In short, the onset has been global, severe, and more rapid than ever before. Nothing short of panic.

### Deteriorating economic conditions present challenges for your organisation

Many Australian companies and organisations are feeling the pinch due to, among other things, restricted access to capital, cash flow constraints, an imperative to cut costs quickly and the 'domino effect' of supply chain vulnerabilities.



Companies and individuals have grown accustomed to easily-obtainable, low cost credit. However, the financial crisis has severely curtailed the availability of such credit with substantial ramifications both for financing and re-financing business ventures. In the instance of financing, increasingly banks are setting tough lending conditions. Property developers, for example, are required to sell 70 per cent of units before finance is approved. Businesses seeking to refinance may also face difficulties in the coming months. Since 2006, groups of banks have provided about \$285 billion in syndicated loans to Australian businesses. These loans will fall due in the next two years. This deadline presents a risk as banks may preclude clients from refinancing, in turn, forcing companies to sell assets at below real value.

The sudden drop in confidence and consumer sentiment has hit demand for goods and services hard. Against a background of bleak economic outlooks and slowing new orders many businesses have cost cutting at the top of their agendas. This has translated into aggressive staff lay-offs by many of Australia's 'blue-chip' companies. Rio Tinto axed about 14,000 jobs worldwide. Not surprisingly, job cuts have also become commonplace in the finance sector. ANZ Bank has made 800 redundancies with potentially more to follow. Similarly Macquarie Group shed 1000 globally. Automotive giant Ford has also recently reduced its workforce by 350 at its Geelong and Broadmeadows plants. Prominent economists forecast a jump in the unemployment rate from 4.4 to 6.4 per cent this year, estimating an additional 250,000 Australians will be unemployed.

Another aspect confronting businesses is supply chain risk. If a business experiences falling demand for its goods or services there is a likelihood that this impact will carry through to impact on your business. This is illustrated by the case of troubled U.S. automakers Chrysler and General Motors. Chrysler and GM's financial woes mean that as many as 1,600 of their North American parts-makers may be strapped for

cash by mid-year, with the prospect of 100 of these parts-makers closing altogether.

## **The current economic storm is no match for Shackleton-esque resilience**

In 1914 Ernest Shackleton embarked on an expedition to cross Antarctica – the last great remaining journey of discovery. Shackleton's tale of survival reminds us of the importance of strategic preparation, an optimistic 'never say die' attitude, compassion, innovative action, discipline, and patience. These lessons can be usefully leveraged by organisations in the current economic crisis.

On January 18, 1915, with destination in sight, the expedition's ship, the Endurance, was frozen into the icy waters off the coast of Antarctica. What ensued is an epic tale of resilience and survival which saw the team of 28 men live for over a year on the open icepack and traverse the worst ocean in the world.

### **Discipline**

Trapped in pack ice and waiting for more favourable conditions the following summer, Shackleton wrote of the dreaded effects of idleness and boredom on morale. To counter this malaise, Shackleton insisted that every man maintain his ordinary duties as closely as possible to the moving ship.

To use the winter months productively and keep the men occupied Shackleton divided the sled dogs and men into teams and set about training them with drills. The teams later competed in a "dog derby" that inspired lively competition. With the winter darkness fast approaching the crew hunted aggressively for seals to stockpile meat and blubber for the long winter.

After the Endurance finally succumbed to the icy conditions, Shackleton established a permanent camp on the ice, dividing the crew into five tents



with a strong leader assigned to each group. In order to keep morale high and discipline intact, Shackleton ordered the crew to keep busy.

### **Innovative Action**

After 15 months of camping in extreme cold and wretched conditions, Shackleton gave the order to launch the lifeboats in search of land. This proved to be extraordinarily dangerous with many narrow escapes from being crushed by the pack ice. After a number of terrifying and painful days in the boats and nights on the ice the three small boats struggled ashore at Elephant Island, an inhospitable island which offered no shelter and little else other than ice covered rocks.

The barren landscape and seemingly hopeless circumstances caused dejection and hopelessness among the men. The men's outlook, overall health and the party's dwindling food supply forced Shackleton to make the critical decision of launching a boat journey in search of relief. The nearest port of assistance was Port Stanley in the Falkland Islands, 540 miles to the north against the prevailing north-westerly wind. It was decided therefore that South Georgia Island, which lay 800 miles to the west, was the objective.

### **Strategic preparation**

Shackleton was very strategic in choosing who should accompany him on the journey. In reaching his decision, Shackleton considered both the task at hand as well as what it would mean for the crew left on the island. Prior to departing he left very clear instructions on who should lead the remaining men.

On April 24, 1916, Shackleton and his five selected crewmen set out from Elephant Island with a six-week supply of food. The journey was beset by powerful gales, giant icy waves, seasickness, claustrophobic quarters, skin rubbed raw by wet clothes, saltwater boils, legs swollen from constant immersion in salt water,

and frostbite. Even the men on the rest shift found every hour painful.

### **An optimistic 'never say die' attitude**

After more than two weeks at sea, they accomplished the nearly impossible task of sailing a small open boat through 800 miles of the world's most turbulent waters. The whaling station however was on the opposite side of the island, 29 miles away. The interior of the island was a tangle of 10,000 foot peaks and glaciers that no person had ever crossed. After a 36 hour trek without sleep or shelter the men arrived at the whaling outpost. The appearance of three of the men, foul smelling, dressed in rags and with overgrown beards and faces covered in grime, came as great shock to the whalers, who knew of the Endurance but had long since given up the crew as lost.

### **Patience**

Although Shackleton wasted no time in making preparations to rescue the 22 remaining men, it took more than four months to find a ship that could reach Elephant Island. At wits end, Shackleton approached Chilean officials and begged for assistance. They obliged and on August 30, 1916, four months after his departure they pulled within view of Elephant Island. Shackleton stood on deck counting the number of figures on shore until he reached 22. The commander had completed the most important mission of his life. He had led his men through hell and every last one had survived the ordeal.

### **Organisational resilience will be required to survive and prosper over the coming period**

A long and deep recession appears imminent. To survive and prosper through the current economic downturn, businesses and organisations will benefit from taking a leaf out of Shackleton's story. Just as unfavourable and changing conditions can destroy an organisation,



the principles of organisational resilience can support your organisation to scale to greater heights when the climate improves.

### **How does one instil resilience in an organisation?**

Resilience is the capacity for an organisation to survive the turbulence of a crisis and rebound once the crisis subsides. Resilience is not a plan or a checklist, though these may be tools to embed resilience. Resilience is a fundamental attribute, found in an organisation's culture, attitudes and values.

Many studies have explored the concept of organisational resilience in the context of business operations. The common characteristics include:

- *Organisational direction*: Clear vision and purpose
- *External responsiveness*: Context awareness
- *A vital workforce*: Healthy, engaged and focused employees
- *Operational flexibility*
- *Creativity and innovation*
- *Process agility*: Highly adaptable communication and decision making processes.

### **Balancing organisational direction with external responsiveness is critical**

Organisations which perform well in adversity have a clear vision and strong sense of purpose. Despite extraordinarily trying circumstances, Shackleton clung aggressively to his vision which acted as a beacon for his crew.

However it should not be thought that a strong vision and purpose will in themselves be sufficient. Responding effectively to changing external circumstances is critical to rapidly reacting to changes in one's operating environment. This requires looking beyond the four walls of your organisation and having a clear understanding of how your customers and

community are faring and your critical supply chain interdependencies.

Shackleton demonstrated a skill for considering external circumstances while not allowing these to jeopardise achieving his vision. Upon arriving on Elephant Island, Shackleton could see the signs of hopelessness in his men and their dwindling supplies. Shackleton, however, knew the importance of adhering to his vision of survival, and pushing on for help despite the seeming impossibility of the task.

A more recent example from the telecommunications sector also highlights the need to be context aware. In March 2000, a bolt of lightning struck a mobile phone chip factory operated by Philips in the USA. The two largest customers, Nokia and Ericsson, responded in very different ways. Quickly realising potentially catastrophic implications, Nokia put the situation on a "special watch" and sprang into action to find alternative supplies. Ericsson, in contrast, ignored Philip's original message believing they had enough chips in stock. By the time Ericsson realised the seriousness of the situation, all alternative chip sources had been sewn up by Nokia. By the end of 2000 Ericsson announced a loss of \$2.3B in its mobile phone division which it blamed on component shortages and by 2001 had retreated from the handset market.

### **During tough times people remain an organisation's greatest asset**

Employee relations and well-being are important at all times but are essential during times of crisis and recovery. Happy, healthy and engaged employees support high levels of coordination, commitment and productivity. Layoffs in times of crisis, more than anything else, have the potential to negatively impact organisational performance through destroying trust and loyalty, wiping organisational knowledge, increasing conflict and causing deterioration in teamwork and cooperation. Shackleton understood the



importance of keeping morale high among his men and went to great lengths to ensure that all of his crew played an active role.

### **Resilient organisations fuse operational flexibility and innovative thought**

Operational flexibility is an important quality for companies needing to withstand supply chain disruptions and demand fluctuations. Flexibility is characterised by the ability to interchange elements in a supply network quickly. Upon becoming ice-bound Shackleton and his men soon turned to seals as an alternative source of food. Similarly, by maintaining excellent supplier relations the Toyota Motor Company was able to respond flexibly and effectively to a fire which destroyed the sole plant of its main P-valve supplier. Upon hearing about the fire, suppliers and local companies rushed to the rescue. Within hours, they had begun taking blueprints for the valve, improvising tooling systems and setting up makeshift production lines. Toyota's close, collaborative relationships with its supplier network enabled it to respond quickly to the crisis.

In times of crisis, resilient organisations have the ability to ensure that decisions are made efficiently, often by moving into a highly networked mode of communication and decision making. After abandoning the Endurance, Shackleton divided his men into five groups. In doing so, he devolved much of the day-to-day decision making to team leaders and was able to coordinate the group more easily.

In times of crisis, the only thing that is certain is that if an organisation is to survive it will need the capability to implement a steady stream of good ideas. At such times, creativity and innovation are needed to provide benefits to customers, investors and employees – some will be products/services others will be process improvements.

### **What harsh realities does your organisation face? Are you placed to overcome them?**

In the midst of the current economic crisis, has your organisation developed a strategy to instil resilience or optimise existing resilience?

GerrardBown can assist your organisation to do so. We partner with you to craft organisational resilience strategies that focus on medium-to-long term benefits while delivering short-term productivity gains. Specific services include:

- **Developing a crisis plan/strategy** (to engage with staff and management to understand key risks, explore opportunities for innovation and set strategic direction)
- **Delivering organisational, leadership and people development programs** (to build organisational commitment, enhance job satisfaction, and to enable you to do more with less)
- **Exploiting new revenue opportunities** (review product mix, assess new opportunities, and evaluate potential acquisitions).

For further information on how GerrardBown can assist your business in the current climate, please contact Samuel Redmond, Business Development Manager, on + 61 3 9001 1578.