Preparing for the world after COVID-19: leadership lessons from crises and discontinuous change

The COVID-19 crisis is not only "one step further" in an established direction, but it stops and even reverses most patterns of economic and social development, including megatrends like urbanisation and globalisation. Lorenz Graf-Vlachy takes a look at how firms have historically dealt with crises of discontinuous change: how pharmaceutical companies responded to organisational crises in the form of product-safety problems, recalls and regulatory threats; how newspaper publishers responded to online news; and the early reaction of hotels to sharing-economy platforms like Airbnb. He draws key lessons for leaders trying to steer their businesses away from irrelevance amid the pandemic.

The global COVID-19 pandemic is currently changing life as we know it. It is a change that—outside the circles of epidemiologists—few people anticipated and even fewer prepared for. Consequently, organisational leaders of all kinds are scrambling to adapt their organisations to the crisis—and the "new normal" we must expect once the worst is over.

Given how unprecedented the current situation is in recent history, we have limited insight into how businesses should best respond to a pandemic that is truly global and that disrupts business as usual at the present scale. But we certainly know a lot about how to respond to organisational crises and discontinuous change in general.

COVID-19 clearly represents both. It is undoubtedly a crisis not only on a human level, but it also challenges organisations to their core, be it by disrupting operational processes or by causing sudden cash-flow problems. At the same time, it is obviously a discontinuous change. It is not only "one step further" in an established direction, but it (at least for now) stops and even reverses most patterns of economic and social development, including megatrends like urbanisation and globalisation.

Here are some insights from three recent research projects related to firms' crisis management and their adaptation to discontinuous change. All three projects yielded crucial lessons for leaders seeking to prepare their organisations for a "new normal" after COVID-19.

Let go of the status quo to avoid returning to a lost world

It is a cliché that change is a constant and that organisational leaders should always be ready to push for a departure from the status quo. But this is not obviously true in all cases of crises. In a recent study, several colleagues and I analysed how pharmaceutical firms respond to organisational crises in the form of product-safety problems and associated product recalls and threats of substantial interventions by regulatory agencies (Struck, Milinski, Schaedler, Graf-Vlachy and König, 2019). Such crises are caused by problems within a firm's operations and are high-profile events with potentially severe consequences for the firm: Not only is resolving them often very costly, but such crises might even endanger patients' lives and the firm's overall viability.

In our study, we specifically analysed top executives' commitment to the status quo and how it related to their handling of such crises. What we found was astounding: Managers who were particularly committed to the pre-crisis status quo were much faster in resolving the organisational crisis. Apparently, they had a stronger commitment to return to what they perceived as a desirable "normal" state, and they were therefore more effective in mobilising organisational resources to resolve the crisis.

However, we also found something disconcerting. The firms of managers who had a greater commitment to the status quo were more likely to experience a similar crisis again at a later time. This suggests that while managers' desire to return to the status quo expedited crisis relief efforts, it also made these efforts very rigid, superficial, and not very systemic. Managers were in fact quick to return to the status quo—unfortunately, they were not innovative in the process and did not make lasting changes to the parts of their organisations that caused the crises in the first place. They went back to a status quo that was not a good state of affairs.

Today, it is important for leaders to recognise that a strong affection for the pre-COVID-19 status quo may help them and their organisations recover quickly from the crisis and return to a prior status quo. But such a recovery will only be a success if this prior status quo is still viable, i.e., if the post-COVID-19 world is like the world we knew before. And there are many indications that this will not be the case. This includes seemingly mundane examples like Berlin's Kreuzberg district broadening bike lanes to allow cyclists to keep their distance—and already announcing that this change will be permanent. But it also includes potentially more seismic shifts like an increase of online teaching in schools and universities, an increased acceptance of remote work, reduced long-distance travel, or changes in people's savings habits. While it is not clear yet in all cases, it seems likely that at least some of these changes will be long-lasting.

Thus, if you find yourself with a certain affection for the status quo before the virus hit, your role as an organisational leader requires you to check if this status quo will still be there once the crisis is over. Because if it is not, you may end up moving swiftly after the crisis—but to the wrong place.

Create perceptions of gain and control to find a good place in the new world

It has long been known that how organisations adapt to discontinuous change depends at least partially on how their members perceive this change. For instance, it has been frequently argued that unless a situation is viewed as a potential threat or loss, managers and others throughout an organisation are very unlikely to allocate substantial resources (both financial and attentional) to a discontinuous change. A seminal study of how newspaper publishers responded to online news demonstrated almost fifteen years ago how organisational resource allocation remained rigid in the face of discontinuous change unless this change was seen as a threat (Gilbert, 2005). For better or worse, in times of COVID-19, you probably do not have to worry about instilling a threat perception in your organisation.

Making things more complicated, however, is the fact that even when threat perception makes investments in adaptations to discontinuous change possible, it tends to make organisations rigid in another way. Specifically, when organisational members perceive a change as a threat or a potential loss, they tend to invest freed-up resources in activities that address the change in traditional ways. Newspapers, for example, perceived online news as an existential threat early on, but made investments that attempted to simply replicate their analogue product on the internet. They did not experiment and were thus unable to take advantage of all the additional opportunities the online world had to offer. Ultimately, many of them failed in creating a truly viable online product. Consequently, leaders in times of discontinuous change must create a sense of opportunity or gain to afford their organisations' members the mental freedom to experiment to find ways to thrive in a "new normal" instead of simply trying harder what they have always been doing. This may be particularly critical in a crisis like COVID-19, when many dearly held beliefs are shattered, but it is not yet completely clear how to operate from now on.

Prior research would thus suggest that you, as a leader, have the daunting task of instilling both loss and gain perceptions in your organisation. In the prototypical case of traditional firms' responses to online competitors, this could often be achieved through the creation of a separate organisational unit that served as a kind of corporate "start-up," which could engage in experimentation due to a prevailing gain perception, and which was funded by the legacy organisation that dominantly held loss perceptions.

But in times of COVID-19, this may not be a viable solution due to the breadth of changes needed. Alternatives thus include either the explicit communication of the paradoxical nature of the change, trying to instil perceptions of loss and gain at the same time, or the creation of different perceptions in sequence. In particular, after initial loss perceptions made resources available for investment in the adaptation to the change, you might try to switch to a gain-focused communication, outlining the opportunities the crisis brings to get ahead of the competition. Clearly, both approaches are difficult to implement.

However, in a recent study on the adaptation of bookstores and book retail chains to online book retailing, my co-authors and I were able to add nuance to these challenging recommendations (König, Graf-Vlachy and Schöberl, 2020). On the one hand, we replicated most of the prior findings. We found the old patterns of loss perception that makes resources available and gain perception that allows making good use of them. But we discovered more. Investments were indeed often made under the perception of loss—but only if organisational members simultaneously perceived some control over the situation. If members perceived almost no control or a lot of control over the discontinuous change, they did not see a point in investing in any adaptation to the change—either because they saw no chance of the investments ever paying off, or because they felt that since the change was under control, there was no investment necessary in the first place. And of course, even when control perception was just right and investments were made, this did not solve the problem of non-experimentation.

On the other hand, we also found that loss perceptions were not always necessary for resource allocation. Even under gain perceptions, organisations were able to make investments in a discontinuous change—if the organisational members believed they had control over the change. When organisational members believed that adapting the change might be beneficial for their firm, and when they felt that they had sufficient control over the situation so that they could make a difference, they were willing to invest. At the same time, gain perceptions allowed for experimentation, leading to novel ways of adapting to the discontinuous change.

In sum, our research shows that you can either play the complex game of creating loss perceptions to enable investments and gain perceptions paired with just the right degree of control perceptions to allow experimentation; or you can instil gain perceptions paired with control perceptions to achieve both at the same time. Of course, neither is simple, but the latter allows you to keep your communication consistent throughout the process.

Don't be a sore loser on the way

Over the last weeks, we saw that governments across the world are willing to support businesses who are threatened by the pandemic. However, such help is necessarily always distributed in a somewhat arbitrary fashion. The same is true for how governments impose and ease restrictions on economic activities. After the initial lockdown in Germany, for example, which had seen all non-essential retail outlets closed, the government allowed stores up to 800 square meters to reopen in April 2020. Why not stores with up to 600 square meters? Why not stores with up to 1000 square meters? The government made its decision based on a 2005 decision of Germany's highest administrative court, which had ruled—in a completely different context—that stores over 800 square meters were to be classified as "large-area retail."

If your business is on the losing end of such a decision, it is easy to get angry and call for changes to regulation and to lobby officials. And while this is both understandable and may even make sense if you have a real chance of changing them, it is important not to let a feeling of being treated unfairly take the upper hand. Instead, treat it as a motivation for change.

In a third recent research project, my co-authors and I investigated the early reaction of hotels to sharing-economy platforms like Airbnb (Weber, Lehmann, Graf-Vlachy and König, 2020). Aside from a variety of other responses, such as general confusion and the belief that Airbnb would necessarily always remain a niche business, it stood out to us that proprietors of small hotels and managers of large hotel chains felt treated utterly unfairly by the government. They thought that companies like Airbnb were getting away with skirting or downright ignoring regulations that hotels had to adhere to. They saw Airbnb as a company that enabled hosts to avoid taxes, ignore fire codes, and violate a multitude of other regulations. Because hotel managers felt that this was such an obvious injustice, they were confident in waiting for the regulator to step in and regulate or even outlaw Airbnb's business. As we now know, of course, this largely did not happen.

Arguably, hotel chains would have been much better off questioning their own practices and business models to adapt to the change. But only a small minority of them did this. For instance, some hotels decided to change their customer segmentation to better compete with Airbnb. Others began to change their product offering, e.g., by relying more on self-service or by adding lounge areas for people to socialise in, to face the competitive threat head-on.

In times of COVID-19, the lesson is thus to not be angry and wait for the regulator to step in. Government intervention may or may not come in time, and it may or may not come in the way that suits your particular needs. Instead, be proactive and use this situation in which things are not as we knew them before as an opportunity to reconsider key assumptions about your business. Think about what it is that your customers really value about your product or service. Consider what you actually need to do to keep your business running. And, most importantly, assess how you might need to change.

Conclusion

Much like pharmaceutical firms face product-harm crises, book retailers face online retailing, and hotels face the discontinuous change of the sharing-economy, all businesses today face a COVID-19 reality they cannot just wish away. Change is needed, and not only temporarily. Once the immediate need of business continuity is met, it is time to think about what true continuity can and must look like in the "new normal."

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Notes:

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