

CHARTERED MANAGEMENT INSTITUTE (CMI)

Economic briefing: Russian invasion of Ukraine

OVERVIEW

Managers and leaders in the UK have already experienced two years of enormous economic disruption and uncertainty due to the effects of the pandemic, compounded by the UK's exit from the European Union (EU). As we enter what some forecast to be the tail end of the pandemic over coming months, economic confidence has been increasing, with a buoyant UK job market and increases in Gross Domestic Product (GDP).

Now with war in Ukraine, a humanitarian crisis and economic turmoil, CMI has undertaken analysis of the possible impact of this downturn for the UK. We explore actions that UK managers should take to safeguard their business and actions for the Government to mitigate negative impacts on economic growth.

ACTIONS FOR MANAGERS AND GOVERNMENT

ONGOING ECONOMIC DISRUPTION FORECAST FOR THE UK

- The UK economy is forecast to contract by at least **c.0.8%** as a result of the Ukraine War¹.
- Specific disruption for business will include soaring energy bills, worsening supply chain disruption and turbulence in global markets, reduced demand as the cost of living soars, leaving UK businesses facing enormous headwinds.
- We expect these disruptions to impact the financial sustainability of businesses across the UK into 2023, and beyond without early resolution to the invasion.

MANAGERS AND LEADERS PLAY AN ESSENTIAL ROLE IN BOLSTERING THEIR BUSINESSES IN TIMES OF ECONOMIC UNCERTAINTY

We are calling on UK managers and leaders to:

- Support staff by leading with empathy, focusing on wellbeing and financial capability, where appropriate.
- Build business resilience via contingency planning - but critically look at cost savings in sustainable ways rather than sacrificing long-term benefits for short-term savings.

¹ NIESR, The Economic Costs of Russia-Ukraine Conflict, March 2022

- Continue to invest and ring fence money for upskilling staff, especially around core skills for managers and staff that ensure businesses can adapt in times of change.
- Take now as an opportunity to make your business more resilient to economic disruption - including reviewing supply chains, looking at net zero opportunities and considering business purposes allied to profits.

GOVERNMENT POLICY ADAPTATION IS CRITICAL IN THE CURRENT ECONOMIC DOWNTURN TO SUPPORT MANAGERS AND LEADERS AND UK BUSINESSES

We are calling on the UK Government to:

- Support household budgets which will have a positive knock-on effect in alleviating pressure on UK business and its managers and leaders.
- Shield and grow investment in skills to help build resilience and productivity in the medium-term.
- Double down rather than slow down the UK's green transition to Net Zero.
- Develop a new Comprehensive Government Strategy for Management and Leadership in England with similar in Scotland, Wales and Northern Ireland.

THE ONLY ECONOMIC CERTAINTY IS UNCERTAINTY

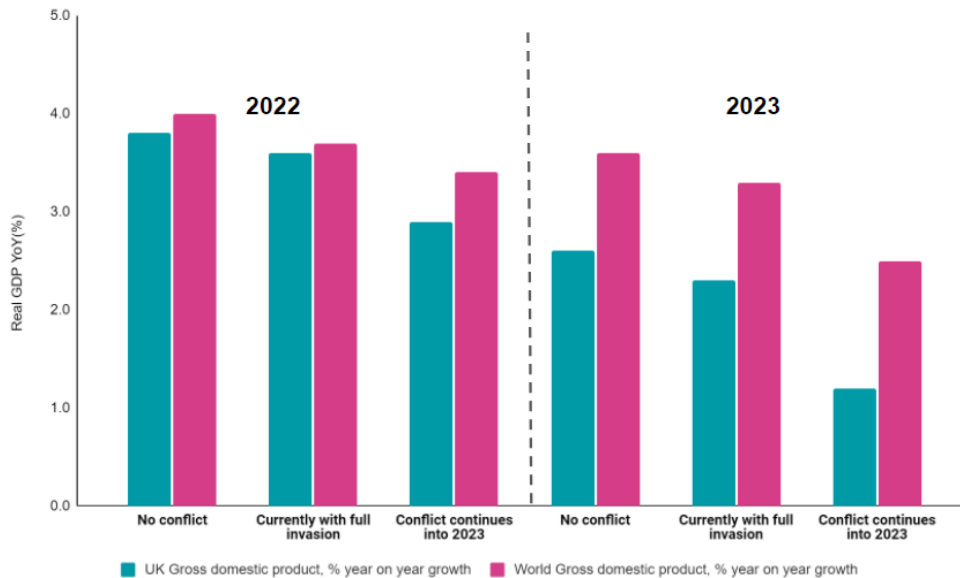
Economic uncertainty resulting from Russia's invasion of Ukraine comes against a backdrop of some of the steepest declines in growth since records began: in 2020, GDP declined by **9.7%**² fuelled principally by the pandemic, but also by Brexit. Although the economy started to recover in late 2021, this latest crisis will negatively impact both UK and global GDP - a key indicator of the size and health of the economy.

With tough economic sanctions imposed on Russia by Western nations and enormous volatility in energy and commodity markets, even an early conclusion to the conflict would mean managers and leaders in the UK can expect to see growth slow down. This means the UK's economy will fall beneath growth anticipated in forecasts at the start of the year. Headwinds for business will be significant.

In the worst scenarios, conflict lasts into 2023, with even tougher sanctions than those already on the table, and possible Russian retaliation in the form of restricted energy supplies. These would exacerbate the current economic situation and may seriously hamper managers' and leaders' ability to protect their business.

² House of Commons, [Coronavirus: Economic impact](#), 2021

UK and World Gross Domestic Product Year on Year (%) forecasts³



UK MANAGERS AND LEADERS WILL LIKELY HAVE TO CONSIDER HOW THE FOLLOWING ECONOMIC REPERCUSSIONS OF WAR WILL AFFECT THEIR BUSINESS:

- **Increasing energy prices** due to a squeeze on energy and fuel supplies will increase costs for all UK businesses. The squeeze will have ripple effects not only in commodity markets, but also in the logistics and haulage industry. Some companies have already experienced **15%** increases in their operating costs, squeezing profit margins⁴.
- **Worsening supply chain disruption will cause** challenges for many businesses for at least the next 12 months⁵. Higher costs and shortages of raw materials will impact **25%**⁶ of UK businesses in primary industries⁷. For example, the cost of lightweight metal, used in the production of cars, beer cans and bread tins, is expected to hit record prices above **£2,600/tonne**⁸.

³ Economic forecasts sourced from: Oxford Economics, WEP March 2022 & UK CEF March 2022

⁴ Sourced from :

<https://www.theguardian.com/business/2022/mar/16/wagamama-owner-and-fever-tree-warn-of-cost-increases-as-energy-prices-soar-russia-ukraine-war>

⁵ Sourced from:

<https://www.cips.org/supply-management/news/2022/march/russian-invasion-to-impact-supply-chains-for-at-least-12-months/>

⁶ House of Commons, *Business Statistics*, 2021

⁷ Traditional industries refer to construction, manufacturing and agriculture

⁸ Sourced from the Financial Times:

<https://www.ft.com/content/cf0212cf-21f3-4520-ae5f-136ce3f78afc>

- **Reduction in UK consumer spending** as the cost of living increases, amplified by the recent Bank of England rise of the cost of borrowing due to the invasion adding to inflationary pressure. This comes as consumer confidence, already dampened by Brexit and Covid-19, fell to the lowest levels in February 2022 seen since the height of the pandemic⁹. Businesses can expect further income losses, as recent strength in consumer demand is expected to weaken by around **5%** by 2023¹⁰.
- **Uncertainty around global trade** may impact UK businesses trading with regions where we can expect to see inflation higher for longer and subdued consumption. The UK's most significant export market, the EU, will be hit and this will possibly further impair demand for UK imports.
- **Reduction of trade with Russia** due to the reputational risks. Many UK businesses are among those severing ties, scaling back or suspending their operations in Russia. It is as yet uncertain how many UK companies will exit Russian markets, and for how long, but astute leaders have already taken decisive action to demonstrate purpose over profit.¹¹

There is no doubt that both the ongoing global health and geopolitical crises will continue to raise uncertainty, which will impact UK business operations both domestically and globally.

MANAGERS AND LEADERS MUST TAKE ACTION NOW TO PREPARE THEIR BUSINESS FOR THE CHALLENGES AHEAD

Managers and leaders can apply learning from the last couple of years to ensure that their organisations are resilient in weathering the storm.

1. PROVIDE STRONG SUPPORT FOR STAFF -WHICH REMAINS KEY TO GOOD LEADERSHIP IN A CRISIS

Previous research at CMI has highlighted the importance of empathetic leadership and communication during a crisis¹². This is as important now as it was two years ago.

Most employees in the UK are likely to only receive **3%** inflationary pay rise on average in 2022¹³ - much lower than overarching inflationary increases which are forecast to peak at **7%** in April 2022¹⁴. Recent ONS jobs data has suggested that increases in pay and bonuses are unequally distributed with those in higher income deciles receiving a larger share¹⁵. Many employees will rightly be concerned about their income levels and this could feed into increasing stress at work and home and, at worst, mental health concerns.

⁹ GFK, [Consumer confidence index](#), February 2022

¹⁰ Oxford Economics, UK CEF March 2022

¹¹ Yale School of Management has compiled a real time list of businesses exiting Russia: <https://yale.app.box.com/s/11lqy1d3yn1kf9xa3r96k9sb6w5m4qea>

¹² CMI, [Management Transformed](#), 2020

¹³ CIPD, [Labour Market Outlook Winter 2021-22](#), 2021

¹⁴ See Bank of England:

<https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising#:~:text=We%20expect%20inflation%20to%20rise,of%20this%20year%20and%20next>

¹⁵ Source from Twitter 10.50am on 17th March 2022: <https://twitter.com/TorstenBell/status/1503710991548354560>

Good leaders will look to award appropriate inflationary pay rises where finances allow for this. Where business genuinely cannot afford such rises, senior managers may want to support staff through existing employee benefits that may help staff financially (such as season ticket loans etc). Employers should adapt wellbeing support offered across the pandemic for new challenges around finances, as well as looking to introduce financial capacity advice and support for managers and employees.

2. CONTINGENCY PLANNING AND AGILITY TO ENSURE BUSINESS RESILIENCE

Managers and leaders need to plan for possible disruptions to their business into 2023 and beyond. We saw throughout Covid-19 the importance of contingency planning¹⁶ - whether managing the uncertainties of furlough or quickly manoeuvring the workforce to remote work. Managers and leaders in the UK need to respond with similar agility now. We know that professionally trained managers feel well equipped to deal with change in times of uncertainty¹⁷: for example, looking at our own data, **78%** of highly qualified managers say that they are better at thinking clearly in times of uncertainty as a result of being Chartered.

Indeed it is too easy in times of uncertainty, to reach straight for irreversible cost reductions that can damage a business long term. However, financial savings can be made through reducing discretionary spend, re-negotiating contracts, exiting existing leases and recruitment freezes.

Redundancies, for example, should be a last resort and only after consideration has been made about how roles could be redeployed within a business. Managers and leaders need to approach today's challenges whilst thinking long term to ensure a global economic crisis is not amplified unnecessarily in local economies.

3. INVESTING IN SKILLS TO INNOVATE

Critically, now could actually be the time to invest in upskilling the workforce - not least in training for managers in the skills needed for the coming set of challenges such as how to support staff and planning for uncertainty. Evidence from previous recessions has shown that upskilling staff is not always deprioritised in an economic downturn¹⁸ - nor should it be lest the present is traded off against the future.

ONS have demonstrated that good management practices made it easier for firms to adopt novel practices during the Covid-19 crisis and better managed firms retain a labour productivity advantage over their peers.¹⁹ Highly skilled workforces can therefore support productivity including workforce productivity, efficiency and innovation. This in turn can ensure cost savings for a business.

Professional management skills, many of which are core skills²⁰, are essential for companies to innovate and improve: in 2021 **86%** of managers said that investment in upskilling and reskilling was a key area for investment²¹. This rationale is more pronounced now than ever before, as higher levels of skills promote

¹⁶ Our most recent Managers Voice polling looking at contingency plans to deal with disruption from further lockdowns in September 2021 showed that 71% of managers reported contingency plans were in place.

¹⁷ CMI undertook research with 550 Chartered Managers in 2019.

¹⁸ Felstead et al, *An analysis of the impact of the 2008–9 recession on the provision of training in the UK*, 2012

¹⁹ ONS, *Management practices, homeworking and productivity during the coronavirus (COVID-19) pandemic*, 2021

²⁰ CMI's Professional Management Framework can be found at:

<https://www.managers.org.uk/education-and-learning/professional-standards/>

²¹ CMI, *Driving UK Post Pandemic Prosperity: Putting Management and Leadership skills at the heart of the UK rebuild*, 2021

innovation, and are vital in dealing with challenges posed by crises²². In light of this, investment in upskilling and re-skilling should be one area of corporate budgets that managers and leaders look to ring fence.

4. FUTURE PROOFING BUSINESSES AGAINST ECONOMIC SHOCK

Leaders and managers must find ways to safeguard against significant economic downturn, and build sustainable, resilient businesses that can weather global economic shocks. Specifically managers and leaders should consider:

- Reviewing, diversifying and monitoring supply chains: with globally precarious supply chains, managers need to ensure resilience and continuity, building in regular reviews.
- Creating value through net zero: with increasing energy costs, managers should either look to accelerate how value can be created through net zero or take their first steps towards net zero.
- Focus on becoming a purpose driven organisation: the importance of business purpose pre-dates the war in Ukraine²³ of course, but now more than ever is a time for business leaders to think carefully about their investments and wider business connections for reputational risks. This, of course, also applies to their social impacts including on their workforce and suppliers and environmental impacts.

HOW THE UK GOVERNMENT CAN HELP

The UK Government cannot leave managers and leaders to tackle this economic crisis alone. Financial support, policy innovation and a commitment to increasing further the positive role that managers and leaders play will be crucial to sustaining UK PLC.

1. SUPPORT HOUSEHOLD BUDGETS, SUPPORT BUSINESS

The forthcoming Spring Statement offers a key opportunity to support household budgets. This could include:

- Providing greater financial support to families to offset energy and food price increases including through grants paid directly to households through energy bills.
- A reduction in VAT on fuel for the duration of elevated energy prices.
- Whilst it is important that health and care is supported in the long-term there is a strong case for delaying increases to national insurance for employees and employers whilst deep economic uncertainties are at a severe level.

All of these measures will help to lift pressures on households and make businesses more resilient by supporting their employees and demand for goods and services.

We would encourage that major fiscal and monetary policy decisions are calibrated to the newly uncertain economic environment and potential further impacts on business and households finances in this context.

²² Lucas Jr, R.E. (2015). Human capital and growth. American Economic Review, Volume 105(5), pages 85 to 88

²³ CMI, [The What, The Why And The How Of Purpose. A Guide For Leaders.](#), 2018

2. SHIELD AND GROW INVESTMENT IN SKILLS FOR RESILIENCE AND PRODUCTIVITY

In order to encourage employers to continue to invest, now is the time to further emphasise Government support for workers of all ages and at all levels through apprenticeships and the apprenticeship levy and business support schemes such as Help to Grow.

Further assistance might be necessary to support upskilling within the workplace. For example, a wider range of training could become eligible for tax relief. Key skills needed for business resilience should be supported through tax relief above 100% as other critical investments can attract. This would be a 'super-deduction' for key skills improving resilience and productivity over time.

Crucial to achieving this strategy is developing a Lifelong Learning Entitlement and apprenticeship levy policy that is sufficiently flexible to support high quality up and re-skilling throughout careers, enabling learners to develop parallel as well as higher level skills.

3. DOUBLE DOWN RATHER THAN SLOW DOWN TRANSITION TO NET ZERO

Extra focus should be devoted to accelerating the green transition wherever feasible rather than locking the UK further into the fossil fuel economy with its huge environmental costs and risks for security.

- A programme to support the large scale retrofit and green investment of residential and commercial properties and the public sector estate should be established. This would lift cost pressures across the economy.
- Super-normal profits earned by energy companies should be mandated for reinvestment in green energy.
- Changes to company law requiring companies to have in place credible, science based Net Zero strategies with key milestones identified should be legislated for.

The major risk is that without Government action on the cost of living, skills and net zero transition, pressure on employers to act on short term imperatives over long term needs will become too great. With additional Government support employers will be much better placed to balance short term resilience and long term productivity.

4. A NEW COMPREHENSIVE GOVERNMENT STRATEGY FOR MANAGEMENT AND LEADERSHIP IN ENGLAND WITH SIMILAR IN SCOTLAND, WALES AND NORTHERN IRELAND

Building on the centrality of increasing the capacity of skilled management and leadership across a series of current Government strategies, there is a need to further reinforce support for a skilled management workforce across Government policy. This need has been identified in the Government's Net Zero strategy, Plan for Growth, Innovation Strategy, Levelling Up White Paper and Business Productivity Review.

CMI is calling for a comprehensive review to support a step change in formally trained, recognised and supported management across the economy, public services and within Government. Such a strategy would place the development of management and leadership for the future at the heart of achieving Government goals on productivity, growth, Net Zero, global trade and levelling up.

About the Chartered Management Institute (CMI)

The Chartered Management Institute (CMI) works with business and education to inspire people to unleash their potential and become skilled, confident and successful managers and leaders. With a wealth of practical qualifications, events and networking opportunities on offer throughout the UK and across the globe, CMI helps people boost their career prospects and connects them with other ambitious professionals in any industry and sector.

In fact, CMI has more than 120,000 people training to be better managers right now. Backed by a unique Royal Charter, CMI is the only organisation allowed to award Chartered Manager status – the ultimate management accolade, and Chartered Management Consultant status which sets and maintains the highest standards for the management consulting profession.

CMI's thought leadership, research and online resources provide practical insight on critical issues for the 160,000 membership community and anyone looking to improve their skills, nurture high-performing teams and help pave the way for the next generation of managers and leaders.

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If you would like more detail on our economic analysis, please contact: Research@managers.org.uk.