CENTER FOR POSITIVE ORGANIZATIONS

Leading in Trying Times Essays

A collection of essays for those interested in making a positive difference within their workplace or community in the wake of trauma and crisis. We hope these essays provide new insights, clarify thoughts, and foster plans of action for leaders, employees, and contributors at all levels.

How to Display Competence in Times of Crisis

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In recent years, U.S. newspapers and television have featured some company in crisis almost daily. The crises have ranged from corporate fraud to allegations of widespread sexual harassment or discrimination. In almost all cases, the leaders of these companies are caught off guard; yet with the world watching, they are expected to say (and do) something to manage the situation.

The consequences of mishandling a corporate crisis on a firm's reputation can linger for decades. We want to emphasize that it is often the mishandling of crises, not the crises themselves, that can have the most severe consequences for a firm. What differentiates those firms that thrive following a crisis from those that do not is the leadership displayed throughout the process.

Consider, for example, how most people continue to hold Johnson and Johnson (J & J) as the standard for how to effectively manage a crisis situation when cyanide-laced Tylenol capsules caused numerous deaths in Chicago in the early 1980s. To this day, the popular press consistently rates J & J as one of America's top companies, despite a crisis situation that could have adversely affected consumer trust and firm performance.

Contrast J & J's corporate image with the negative view that many people still harbor for Exxon 15 years after an accident where the oil tanker *Valdez* precipitated one of this nation's most extensive oil spills. Unlike the Tylenol scare at J & J, no one died from the oil spill, but Exxon (now ExxonMobil) was and is heavily criticized for both the accident and its handling of it. Consequently, and despite its unequivocal corporate success in the oil and gas industry, the Exxon brand suffered severe reputational damage.

To differentiate, J & J was the victim of product tampering. In other words, the crisis was perceived to be beyond their control. Stakeholders were sympathetic to the organization and its leadership because of J & J's victim status in the crisis. With the Valdez accident, the public placed fault on Exxon employees and management for the crisis. It is difficult to recover when the organization and its leadership are blamed, regardless of the response strategy employed by the firm. One cannot overstate the notion that crisis situations and the handling of them literally can make or break a firm's long-term reputation. Moreover, a bad reputation can have debilitating effects on a firm's financial health and survival.

We introduce six competencies for leading organizations in turbulent times. Our fundamental assumption is that crisis leadership is more than managing corporate communications and public relations (PR) during a crisis. Rather, the best crisis leaders are those who build a foundation of trust, not only within their organization, but also throughout the organization's system. These leaders then use that foundation to prepare their organizations for difficult times, to contain crises when they occur and to leverage crisis situations as a means for creating change and ultimately a better organization.

At first glance, these criteria are appropriate for business leaders in all situations. Displaying these leadership competencies during times of crisis, however, poses a unique challenge. First, leaders in crisis are forced to operate in full public view, with the media and others positioned to report and critique their actions. Second, during a crisis, there is the tendency to make decisions and actions that are oftentimes suboptimal. These shortcuts ultimately can undermine effective leadership. By consciously being attuned to the big picture of crisis situations and the opportunities that can be created for the organization as a result of crises, leaders and their organizations can thrive. In today's competitive business environment, developing crisis leadership competencies is mandatory.

Defining Crisis

Organizations are susceptible to an array of crises. While each one poses a different type of threat, and there is no "one way" to manage a crisis, it helps to understand what differentiates a crisis situation from an unfortunate or unpleasant business challenge. For example, on the surface a train derailment might seem like a crisis. We argue that in many cases a derailment is an unfortunate consequence and risk of doing business. Yet if a train derailment caused the deaths of passengers or personnel, or resulted in the leaking of a toxic substance in a heavily populated area, the situation moves from a problem to a crisis. To more fully appreciate business crises, we define them as any emotionally charged situation that, once it becomes public, invites negative stakeholder reaction and thereby has the potential to threaten the financial well-being, reputation or survival of the firm or some portion thereof.

Borrowing language from the Institute for Crisis Management (ICM), there are two primary types of crisis situations: sudden and smoldering. Sudden crises are those unexpected events in which the organization has virtually no control and perceived limited fault or responsibility. To call the devastation associated with the terrorist attacks on September 11, 2001 a crisis is an understatement for sure, but for some businesses the attacks represented a sudden crisis of the highest magnitude. Business leaders in this country could not have conceived that such tragedy was possible, and therefore most were unprepared for it. Employees, customers and other stakeholders were left in the dark for weeks or longer. For example, disruptions in technology such as phone lines and computer systems left many employees unsure of where or when to report to work. The ensuing loss of productivity and the associated workplace chaos was not blamed on the leaders of the affected firms.

Such empathy and assignment of "no-fault" is common for many types of sudden crisis situations, precisely because they are perceived as being beyond management control. Nevertheless, firm leadership is still expected to resolve the crisis, and any displays of empathy become short-lived if stakeholders perceive firm leadership as mishandling the execution of the crisis response.

Unlike sudden crises, smoldering crises are perceived as the responsibility and fault of a firm's leadership. One of the United States' most notorious class-action racial discrimination lawsuits was filed against the Texaco Corporation in the mid-1990s. The allegations against Texaco involved disparate salary and promotion treatment between African-American and white employees. Tape recordings of senior executives of the firm using racial epithets and making other disparaging comments about Black employees subsequently became public fodder. Although it was these recordings that made headline news, both the inappropriate behavior of those managers and the unjustified discrepancy in salary and promotion decisions were a function of poor management and led to a costly, smoldering crisis situation.

It's not the crisis itself that necessarily threatens an organization, but the handling of the crisis. A well-managed smoldering crisis will do less harm to an organization than will a poorly managed sudden crisis.

Phases of a Crisis

Researchers have established a minimum of five phases depicting a typical business crisis. These phases provide some insight into effective leadership practices during times of crisis.

1. Signal Detection: While these are less evident in many sudden crisis situations, smoldering crises nearly always leave a trail of red flags or warning signals that something is wrong. Unfortunately, these warning signals often go unheeded by management for several reasons: (1) An illusion of invulnerability leads people to think that serious problems only happen to other people. (2) Ego defense mechanisms, such as denial, allow leaders to preserve a pristine image of themselves and their organizations even in light of evidence to the contrary. (3) Even more troubling is a failure in signal detection precisely because it is the decision making and behavior of organizational leaders contributing to the pending crisis. More than 50% of all crises are sparked by management activity.
2. Preparation/Prevention: This suggests that with proper planning and preparation, firms can avoid many crisis situations. This is not to suggest, however, that the goal for managers is to prevent all crises, which would be impossible. But with some realistic planning and expectations, they will be better positioned to prevent some crises and better able to manage those that are unavoidable.
3. Containment/Damage Control: People associate these activities with crisis management. Clearly, this is an important step toward business recovery, and the goal of this phase is to limit the reputational, financial and other threats to firm survival. Effective managers of damage control and containment are those who execute a strategy that ends the crisis. Ending a crisis, however, is not the same as leading a firm through a crisis with the vision of being a better organization as a result.
4. Business Recovery: One of the ultimate goals of any crisis situation is to get back to "business as usual." In our own research of firms involved in class action discrimination lawsuits, we found that executives are constantly trying to reassure stakeholders that, despite the disruption, business affairs are operating smoothly or will be returning to normal soon. In the business recovery stage, what differentiates crisis managers from crisis leaders is the ability to consider both short- and long-term recovery efforts and to think beyond the business as usual paradigm to a business anew paradigm.
5. Learning: Organizational learning is the process of acquiring, interpreting, acting on and disseminating new information throughout the firm. When it comes to managing crisis situations, however, firm leadership generally adopts a reactive and defensive posture that prevents learning. The typical sequence of events is: Crisis event occurs, firm scrambles to contain the crisis, crisis is eventually resolved. In a learning approach the same stages would be enhanced by an explicit attempt by firm leadership to understand the underlying organizational factors contributing to the crisis and then leveraging this insight to facilitate fundamental change in firm systems and procedures.

Understanding these phases of a business crisis is necessary to develop the leadership competency to successfully lead organizations in turbulent times. The table below identifies key questions associated with each phase that leaders may want to consider in preparation of becoming crisis leaders rather than crisis managers.

Crisis Phase	Questions Leaders Ask
Phase 1 – Signal Detection	What are the organization's vulnerable areas? How can the organization's vulnerable areas result in a crisis? What situations and practices does the organization ignore that may lead to a crisis? Does the organization acknowledge things that may be uncomfortable to confront? How do the organization's systems and policies contribute to potential crisis situations?
Phase 2 – Preparation/Prevention	Has leadership created a plan for reacting to crises? Has the organization allocated appropriate resources for crisis prevention? Will the organization's infrastructure facilitate or hinder the resolution of a crisis? Has the organization's culture developed a readiness mentality for responding to crisis?
Phase 3 – Containment/Damage Control	Is the organization positioned to implement a strategy for limiting damage during a crisis?
Phase 4 – Business Recovery	What are the organization's short- and long-term recovery plans after the crisis? What critical activities must leadership be engaged in to recover from the crisis? What metrics will be used to evaluate the performance of our business recovery strategy? How will leadership communicate the end results of the business recovery phase?
Phase 5 – Learning & Reflecting	What did the organization learn from the crisis? Did leadership reflect on past mistakes and behaviors? Has the organization engaged in a change of behavior to prevent future crises? Has the organization developed a memory to prevent future crises?

Crisis Leadership: Six Competencies for Using Crises to Promote Organizational Change

Traditionally, firms in crisis adopt management activities associated with the containment phase described earlier. This phase often encourages a one-dimensional focus. Moreover, we found that damage control activities tend to be defensive or reactionary, given that firms in crisis are swimming in negative publicity. This traditional approach to crisis management, however, is insufficient given the magnitude of the challenge that crisis situations present. What is needed is not simply management of the situation but a leadership approach whereby the organization, the crisis and the environment are considered fully and completely. We've identified six core competencies for crisis leadership.

Building a Foundation of Trust

Without trust, organizational decision making and strategy implementation will fail. Quite simply, we cannot ignore or underestimate the human element of organizations. This includes the need for employees to feel safe in their work environments and with the people with whom they must interact, the need for customers to have faith in the products or services rendered by the firm and the need for business partners to expect cooperative intentions and actions. Business leaders must create an environment of trust that spans across the entire supply chain and is inclusive of all aspects of business in which crises can occur.

One cannot fully appreciate the significance of trust without first understanding betrayal. Betrayal is a common experience in organizations and can result in an overall loss of credibility for the very institutions on which most societies depend. Take, for example, the widespread racial discrimination at Denny's whereby customers were betrayed by management practices that encouraged race-based discrimination. The subsequent lawsuit resulted in negative publicity for the restaurant chain, a severely tarnished reputation and $54 million in settlement fees. More recently, Adelphia Communications betrayed employees, customers and shareholders when it was found to have made multi-billion-dollar. off-balance-sheet loans to the company founders, who were then also the firm's CEO and CFO.

Subsequent to the Securities and Exchange Commission (SEC) investigation becoming public, Adelphia's stock dropped 99.75%, representing a profound decline in public trust.

To build trust leaders must communicate openly, honestly and often. A willingness to share information sends a signal to stakeholders that they are important. Sharing information, however, is risky. In addition, some messages that leaders must communicate may reflect poorly on themselves or the firm. Yet giving away power and allowing oneself and the organization to be vulnerable is precisely the behavior that fosters trust in the workplace. Building a foundation of trust also involves managing expectations. Explicitly communicating what you expect of others is imperative.

Creating a New Corporate Mindset

Organizational leaders are influenced by several external factors, mainly the need to respond to stakeholders who have power over the firm. For publicly owned organizations, individual and institutional investors represent one such group. In recent years, some organizations have succumbed to this pressure in ways that are both unethical and illegal. The leadership of these crisis-ridden firms does not necessarily represent bad people, but individuals who find themselves in extraordinary pressure-filled positions, the likes of which most will never experience and therefore cannot fully appreciate.

The challenge we pose to corporate leaders is to create a new, more expansive mindset where they will be forced to make decisions that reduce the likelihood that crises will emerge. In addition, the expanded corporate mindset competency may provide clues as to how best to lead a firm out of a crisis, as was the case with Denny's. In strategizing how to resolve the discrimination crisis, Denny's leadership team took its obligations to multiple stakeholders into consideration. Instead of focusing only on profitability, Denny's considered the needs of various groups, and as a result implemented control systems and incentives that encouraged and rewarded diversity initiatives. Moreover, the prevention of discrimination was not relegated to the human resource management department. Instead, multiple groups, both within and outside the organization, were engaged in the process and empowered to create solutions.

Identifying the (not so) Obvious Firm Vulnerabilities

Clearly in a manufacturing environment, for example, workplace safety and equipment malfunctions are obvious crisis triggers. Yet crisis leaders will anticipate and consider the less obvious scenarios such as intentional sabotage of machinery or the use of company equipment as a weapon. Certainly a leader can never anticipate all possible crisis scenarios, but at the very least one should consider and plan for many of the obvious, and a few of the less obvious, threats.

When we fundamentally believe in the goodness of our intentions, however, it becomes very difficult to consider that our actions are anything less than aboveboard. Leaders must continually challenge themselves to consider the possibility not only that undesirable situations occur in their organizations, but also that they may have played a role in creating environments where bad things happen.

Making Wise and Rapid Decisions

Traditional approaches to decision making involve information gathering, generating alternatives, evaluating those alternatives and reaching a decision. During times of crisis, however, this traditional approach is less relevant in that it assumes access to complete information and unlimited time – neither of which is generally available in crisis situations. Yet what we have found in examining business crises is that some leaders neither adopt traditional decision making nor a suitable alternative. Instead, during a crisis situation, there is a tendency for leaders to abdicate decision-making power to others.

The tendency to overly rely on the advice of others during decision making is a result of what we call the power of the expert, or employees who have specialized knowledge in a particular area and whose sole function it is to use and share that knowledge for the betterment of the firm. Leaders often will rely on expert opinion during crises because of the amount of uncertainty often associated with crisis situations. Savvy organizational leaders will recognize, however, that it is not the expert, but him or herself that has the broadest perspective on the organization and thus is best positioned to make appropriate decisions.

Consider Denny's leadership decision to move quickly to settle the firm's discrimination lawsuits. This decision took into account the cost, time and energy that litigation would require of the firm. Yet resolving the lawsuit was not the end of Denny's crisis response strategy. As Denny's moved forward it listened to not only the advice of its legal team, but it also partnered with civil rights groups, minority businesses and diversity management trainers to obtain a wide perspective of opinions on how best to position the organization going forward.

Take Courageous Action

Executives consistently rate courage as an important competency and a desired trait for future leaders. In times of crisis, however, there is so much ambiguity associated with the crisis situation, and its impending outcome, that managers attempt to counter that risk by becoming extra conservative in their response to it. Crisis leaders, on the other hand, will embrace the opportunity to think and act big, yet responsibly. This often entails making decisions and adopting behavior that goes above and beyond what might be mandated by the situation. Leaders who approach crises as an opportunity for the firm rather than as a problem open themselves up to the possibility that a new, better organization can be created as a result.

Learning from Crisis to Effect Change

It is possible to use a crisis as an opportunity for creating a better organization. To do so, however, requires that leaders adopt a learning mentality. Corporate businesses cannot afford to manage by fighting crises. They exist not to react to market trends or employee concerns, but to manufacture products, provide services and create value. Firms that are constantly managing in this reactionary mode are less competitive in the marketplace.

Learning entails examining the organization - its culture, policies and procedures – to expose root causes of crises. Learning entails: (i) facing information that might suggest that fault lies with the leadership of the firm, (ii) encouraging and rewarding people who communicate truthful information about problems in the firm, (iii) sharing information and (iv) making changes to the organization that fundamentally revamp systems or remove people who are toxic to the organization. A leadership approach to crisis management requires leaders to change the way they think about and respond to crisis situations or turbulent environments. Is it worth it? We say unequivocally yes, as evidenced by a study we conducted examining the effect of crisis management versus crisis leadership responses on firm reputation.

Leading Amidst Crisis: A Study of Reputation Effects

The best organizational crisis leadership is generally not evident because these firms are less likely to experience a crisis, and when a crisis does occur they are managed in such a way that the sensationalism of the crisis is weakened. The best organizational leaders cannot avoid crises altogether. Thus, the best way to evaluate the crisis leadership approach is to do so in the midst of a crisis. We examined the courageous action competency in a study in which 132 MBA students evaluated an organization's (fictitiously named ACME) response following a class action lawsuit against the firm. Participants were instructed to read company data that clearly indicated that black employees were paid significantly less for the same job than white employees, and that blacks were promoted at a significantly slower rate than

their white counterparts. Participants then were presented with one of three firm response scenarios that ranged from those that were crisis management-focused to those that were crisis leadership-focused.

Participants were randomly assigned to a crisis response scenario, and we asked them to evaluate the firm's reputation as an employer following its response to the crisis based on the scenario they read. "ACME's response to the lawsuit was effective in terms of protecting the firm's reputation" and "Employees would recommend ACME as a potential employer to friends" are representative items from the reputation measure. We found that crisis leadership responses were associated with higher firm reputation ratings than were crisis management responses. Our findings are particularly meaningful in light of firm desires to attract and retain top talent in the organization.

In summary, crisis management activities are an important component of overall crisis leadership. However, firms that desire to consistently rate high in corporate reputation and other measures will recognize that such activities are insufficient for creating a world-class, crisis-adverse, learning organization. Crisis leadership is a process. It is the ability to demonstrate the core set of behaviors identified here in a complex and dynamic environment, and to do so under a spotlight. Although the crisis leadership competencies we have outlined are emerging, as scholars, practitioners and executives begin the transition from the traditional crisis management strategies to a crisis leadership stance we fully expect to see an increase in organizations' capabilities for learning from and leveraging crises.

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