



Crisis Leadership: The Key to Corporate Sustainability in Turbulent Times

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I. Introduction

The credibility and sustainability of organization in the present turbulent times is highly influenced by the perception of their responses during crisis situation. Crisis require a very different sort of leadership than normal times and the current economic crisis in testing leadership skills to the maximum. Boom and bust are part of the business cycle. But it is the leader who can make all the difference - between success and failure. According to Warren E Bennis, the founding chairman of the Leadership Institute at the University of California, "Failing organizations are usually over managed and under led." A leader establishes vision, sets goals, motivates people and obtains their commitment to achieve the goals and realize the vision. This role becomes all the more crucial during tough times. Crisis leadership can provide the right insight and result in successful diffusion of crisis leading to corporate sustainability.

II. What is Crisis?

A crisis may be any major unpredictable event that threatens to harm the organization, its stakeholders or general public. Three elements are common to most definitions of crisis: a) a threat to the organization (b) the element of surprise and (c) a short decision time. Venette argues that "crisis is a process of transformation where the old system can be no longer be maintained." Therefore the fourth defining quality is the need for change. If change is not needed, the event could more accurately be described as a failure or incident.

2.1 Types of Crisis

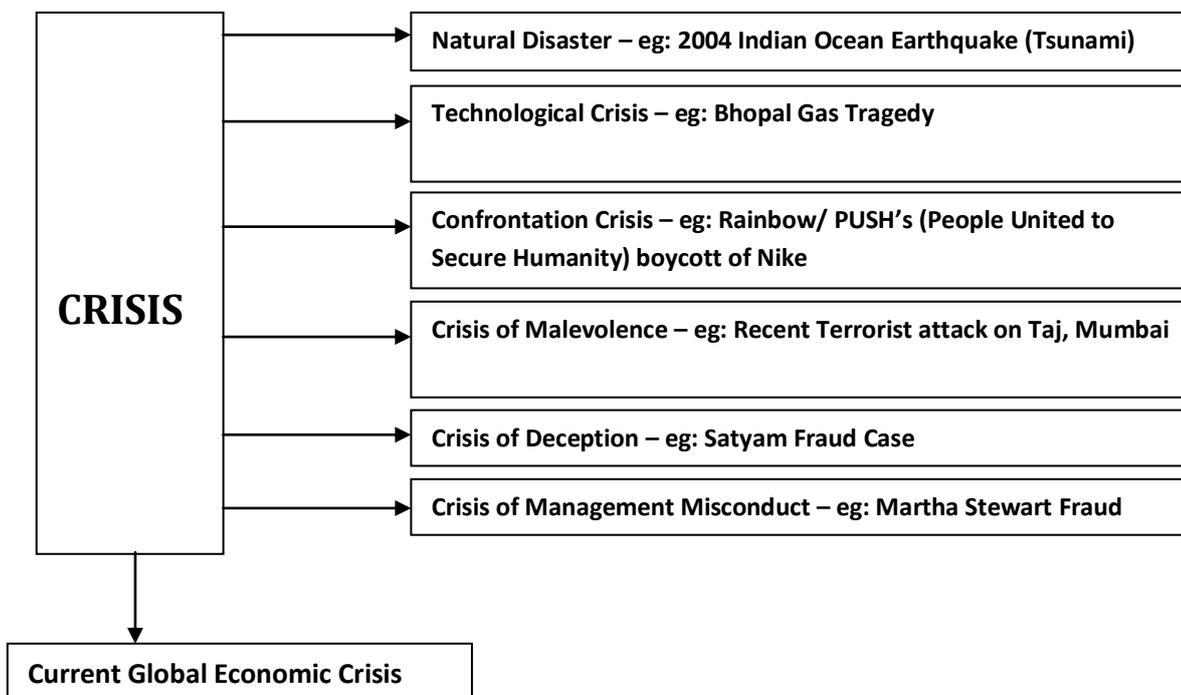


Figure 1: Types of Crisis



III. Leadership in Crisis - Stories of success

3.1 Case: Johnson & Johnson

Executor: James Bruke, CEO

Learning: Dig Deep for the Root cause

In the early 1980, when the competition among pain relief products was intense, Tylenol a flagship product of Johnson and Johnson was a clear market leader in the category. Claiming approximately 35% of the product category, Tylenol brought in \$ 500 million in annual sales and accounted for 8% of Johnson and Johnson's total sales.

The environment changed rapidly on 29th September, 1982 when 3 people in the Chicago area died after taking cyanide laced Extra Strength Tylenol capsules. The next day, amidst decisive action to recall 93,000 bottles in 31 states of specific batch identified in the first deaths, 2 more people died. Johnson and Johnson moved quickly to suspend all television advertising. A crisis emerged.

Immediate action was taken by the organizational authorities of Johnson & Johnson by recalling and destroying 31 million capsules at a cost of \$100 million. The affable CEO James, Burke appeared in television ads and at news conferences informing consumers of the company's action Tamper-resistant packaging was rapidly introduced and Tylenol sales swiftly bounced back to near pre-crisis level.

James Bruke led an epic crisis response that not only saved the highly valued Tylenol brand, but also strengthened the nearly century old esteemed reputation of Johnson and Johnson. His leadership strategies ushered in the modern era of crisis response.

3.2 Case: The 9/11 Terrorist Attack

Executor: Mayor Rudy Giuliani

Learning: Face Reality and Move Ahead

The September, 11, 2001, terrorist attack on New York City provides an excellent example of crisis leadership in the public sector. On this day at 8.48 am. American Airlines Flight 11 Slammed into Tower 1 of the World Trade Center in the New York City. Mayor Giuliani was told two minutes later that a plane had hit the Trade Center. He immediately headed for the scene holding true to his long standing principle to see things with his own eyes. This was a major terrorist attack on the city that he loved.

Shortly after arriving at the World Trade Center, he found that the city's emergency command and control center was evacuated because of the proximity to the World Trade Center. Immediately he developed two priorities. First, to set up a new command center and second, to find a way to communicate with the people in the city.

Within 40 minutes of the arrival at World Trade Center, a new command center was established at a short distance away from the site. However, the usefulness of this command center was short-lived. At 10.05 am the phones were dead and there was a thunderous roar followed by an enormous cloud of acrid smoke and trash that filled the command center area resulting in collapse of Tower 2.

Giuliani suddenly found himself without external communication and temporarily trapped in the building. After unsuccessfully exploring several exits, Giuliani and his staff found a way to get outside the damaged building. At 10.20 am another cloud of smoke and concrete dust filled the sky Tower 1 had collapsed.

Continuing to focus on his priorities, Giuliani established Engine 24 firehouse as the new command center. Aides were implementing the elements of the emergency action plans that they had rehearsed so often. Additionally Giuliani was on the air speaking to the people of New York City preparing for the loss but reassuring them that everything possible was being done to save as many lives as possible.

Giuliani used all of his skills to lead the city of New York through this tragedy and to help it adapt to the post 9-11 world. However the key to these tasks was the groundwork that Giuliani had laid in his previous seven and a half years as a Mayor.



3.3 Case: Crisis in Mattel Inc.

Executor: Robert Eckert, CEO

Learning: You are in the Spot light

Mattel Inc. the toy maker was plagued with more than 28 product recalls and in summer 2007 among problems with exports from China, faced two products recalls in two weeks. Lab report showed that lead level in the products exceeded safety standards. As a result Mattel recalled millions of toys.

The company did everything it could to get its message out, earning high marks from consumers and retailers. Though upset by the situation they were appreciative of the company's response. At Mattel, just after 7 a.m. recall announcement by federal officials, a public relation staff of 16 was set to call reporters at the 40 biggest media outlets. They told each to check their emails for a new release out thing the recalls, invited them to a teleconference call with executives and scheduled TV appearance or phone conversation with Mattel's chief executive. The Mattel CEO Robert Eckert did 14 TV interviews on a Tuesday in August and about 20 calls with individual reporters. By the week's end, Mattel had responded to more than 300 media inquiries in U.S. alone.

IV. The Global Economic Crisis and Corporate Leaders of India

The inception of Global recession in U.S in December 2007 which increased in intensity since September 2008 has resulted in a pronounced deceleration in international trade rising unemployment and slumping commodity prices.. The crisis that started in the U.S quickly spread to all parts of the world. Dozens of banks, even the biggest of them looked to go bankrupt. There have drastic job loses worldwide. In U.S 2.6 million jobs were lost in the period of September 2008 to December 2008 and 4.2 million jobs were lost from January 2009 to December 2009. According to ILO nearly 212 million in 2009 following an unprecedented increase of 34 million compared to 2007, on the eve of global crisis. HR managers had to figure out how to shed people with minimum pain. And finance managers suddenly had to worry about dwindling cash flows and high cost of funds something that had not been a problem for many, many years.

(Reuters)- One of the three Americans who won this year's Nobel Prize for economics said bloated public deficits on both sides of the Atlantic meant that recession remained a real risk for 2014. Eugene Fama, who shares this year's 8 million crown (\$1.2 million) prize with Robert Shiller and Lars Peter Hansen, says that highly indebted governments in the United States and Europe posed a constant threat to the global economy. (<http://www.reuters.com/article/2013/12/07/us-sweden-nobel-idUSBRE9B605C20131207>)

The Conference Board — the entity that looks at consumer confidence levels each month — released its outlook for 2014 economic growth and the results were mostly disappointing. A full five years after Lehman's downfall and the start of the Great Recession, mature economies are growing at a slower rate than they were before the recession. The Conference Board is predicting a 3.1% increase in global economic growth for 2014; that figure stands at just 2.8% for 2013. Bart Van Ark, the Conference Board's executive Vice president and chief economist, said in a press briefing that global growth in 2013 was less than they had previously expected thanks to factors ranging from recessionary environments in Europe to political in-fighting at home. "Political brinkmanship has slowed the economy more than we anticipated. It is the government part that really has been holding us back for most of the year," Van Ark said. He also noted that growth in the emerging markets — particularly those of India, Mexico and Brazil — was much slower than expected, in large part because of the structural changes that are necessary to evolve from an emerging market to a more mature market. This is a trend that could very well continue into 2014.

4.1 Genpact and Leadership strategy of Pramod Bhasin (CEO, Genpact)

In the present crisis, Bhasin is facing the challenge of managing a huge workforce without hurting either the brand or employee morale. Based upon his interview with BW his crisis leadership is can strategy can be outlined as follows:-

- Managing expectations of work force with openness.
- Participative approach



- Communication with employees about current stringent market conditions
- Linking employee retention to employee performance and raising their targets
- Demonstrating fairness to employees (We tell people that we will cut ours before we cut yours salaries)
- Focussing more on value-addition to clients needs for greater cash flow
- Pursuing new growth verticals such as health care and HR

4.2 ICICI and Leadership Strategy of Chanda Kochhar (CEO & MD, ICICI)

Times are changing at ICICI Bank. The days of rapid growth and race for market share are things of the past. It is introspection time: the operating environment has changed based upon her interview with BW leadership strategy of Chanda Kochhar can be outlined as follows:-

- Focus upon conserving capital and liquidity as priorities
- Maintaining regular touch with clients
- Responding to revised expectations of clients in elongated working capital cycles.
- Spelling out priorities to employees, respelling them according to the current economic scenario and aligning organizational performance.
- Continuously being innovative.

V. Models of Crisis Management

5.1 Crisis Management Model

Successfully diffusing a crisis requires an understanding of how to handle a crisis before it occurs. Gonzatez-Herero and Pratt created a four-phase crisis management model that includes: issues management planning prevention the crisis and post crisis. By practicing issues management before crisis birth, authors believe organization can shift the outcome of crisis

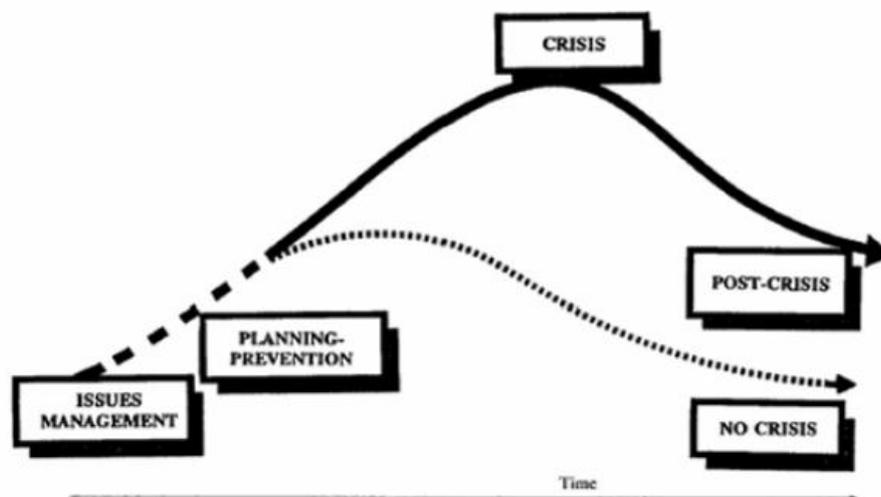


Figure 2: Development of Issues with or Without Management Intervention; Adopted from Gonzalez-Herrero and Pratt (1996)

5.2 Management Crisis Planning

No corporation looks forward to facing a situation that causes a significant disruption to their business, especially one that stimulates extensive media coverage Public scrutiny can result in a negative financial, political, legal and governmental impact. Crisis management planning deals with promoting the best responsible to a crisis.

Preparing contingency plans in advance as a part of crisis management plan is the first step to ensuring an organization is appropriately prepared for a crisis. Crisis management teams can rehearse a crisis plan by developing a simulated scenario to use a drill. The contingency plan should contain



information and guidance that will help decision-makers to consider not only short term consequences but the long term effect of every decision.

5.3 Business Continuity Planning

When a crisis will undoubtedly cause a significant disruption to an organization, a business continuity plan can help minimize the disruption. First, one must identify the critical functions and processes that are necessary to keep the organization running. Then each critical function must have its own contingency plan in the event that one of the function processes ceases or fails. Testing these contingency plans by rehearsing the required actions in a simulation will allow for all involved to become sensitive and aware of the possibility of a crisis.

VI. Crisis Leadership Model

This paper suggests a crisis leadership model based on the various stages of crisis and aligning the leadership facets required for dealing with each stage.

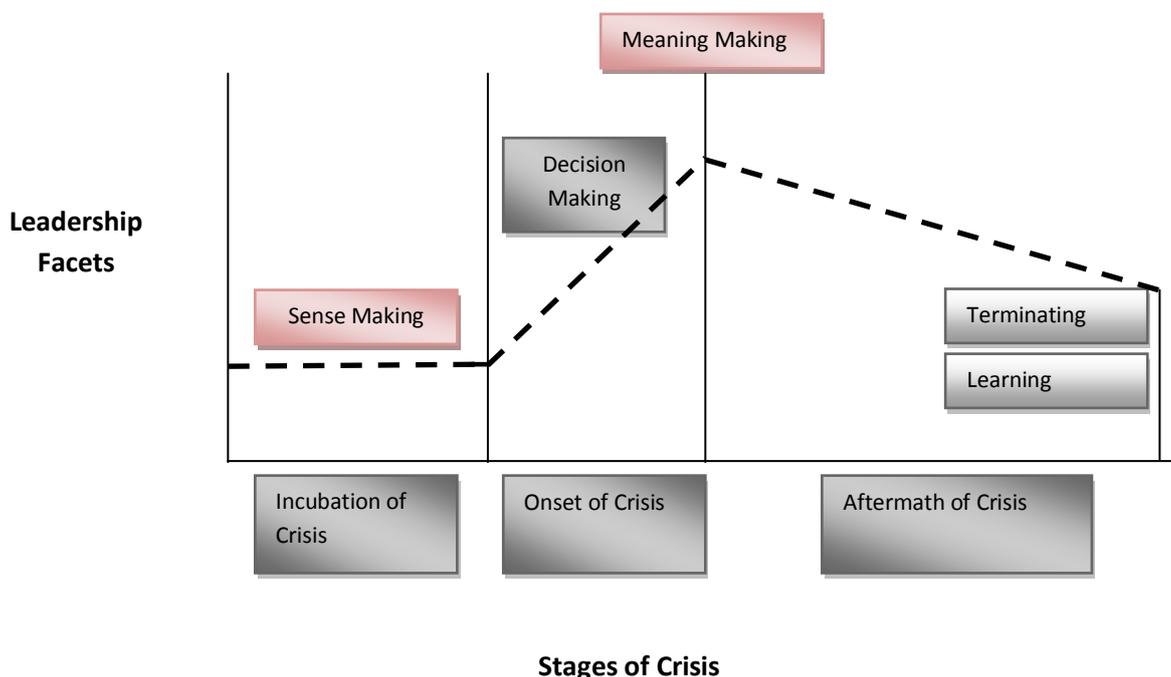


Figure 3: Crisis Leadership Model

6.1 Stages of Crisis

The Crisis life cycle according to this model comprises of three stages: Incubation, Onset of Crisis and aftermath of Crisis.

The five facts of crisis leadership which have been aligned to the various stages of crisis are:

- (i) Sense making – the classical situation assessment step in decision making.
- (ii) Decision making – the act of both coming to a decision and implementation of that decision.
- (iii) Meaning making – the act of communication for justification of decision and invoking support and co-operation.
- (iv) Terminating- the crises which is possible only if the leader correctly handles the accountability question.
- (v) Learning - referring to actual learning from the crisis for future. A crisis often opens a window of opportunity for reform for better or for worse.

VII. Leadership Strategies in Crisis: Suggestions

The following strategies are hereby suggested to the practiced by the leaders in the turbulent times.



7.1 Crisis Leadership: The intersection of Innovative, Bold & Ethical Leadership

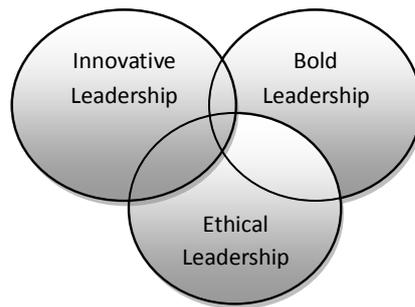


Figure 4: The Intersection of Innovative: Bold and Ethical Leadership.

7.1.1 Innovative Leadership: For breaking free in turbulent times, a leader needs to adopt creative ways for solving complex problem and adapt to change. We can shift our perspective radically by changing our point of view. If you are a marketer then gauge from the eyes of customers. If you are a coach, stand in the place of trainee. Turn the problem upside down so that all familiar parts look strange and then take a fresh look. Innovation starts when people convert problem into ideas. For the innovation process to flourish, we need a climate that welcomes problems and encourages inquiry.

7.1.2 Bold Leadership: Bold leaders are those who see tough times as “their time” – the time to step forward, embrace the challenge and make great things happen. Tough times take away the comfort zone that allowed the luxury of making decision that are popular with colleagues and employees. The decisions in crisis time are needed to be tight and targeted for maximum effect. Bold Leadership requires a streamlined approach to the use of resources in order to achieve new efficiencies. Leaders should have the ability to hold teams together, maintaining effectiveness in face of difficult times and unpleasant decisions.

7.1.2 Ethical Leadership: Crisis generally have a demoralizing impact on the work environment of an organization. Leaders should practice ethical leadership in such circumstances by developing trust, openness, transparency and authenticity and demonstrating optimism and enthusiasm. In times of crisis, ethical leadership can help to seek co-operation and loyalty of the employees and stake the organization ahead in difficult times

7.2 Change Leadership through Appreciative Intelligence:

Tojo Thatchenkery in his book “Appreciative Intelligence” has laid down the Appreciative inquiry approach to change management which helps us exactly to accomplish this.

Appreciative Inquiry is based on the theory of social construction or reality. Simply stated “What we believe in what we see.” So if we believe that change is painful, we will experience pain during change process and if we believe that change is celebration, we will experience that to.

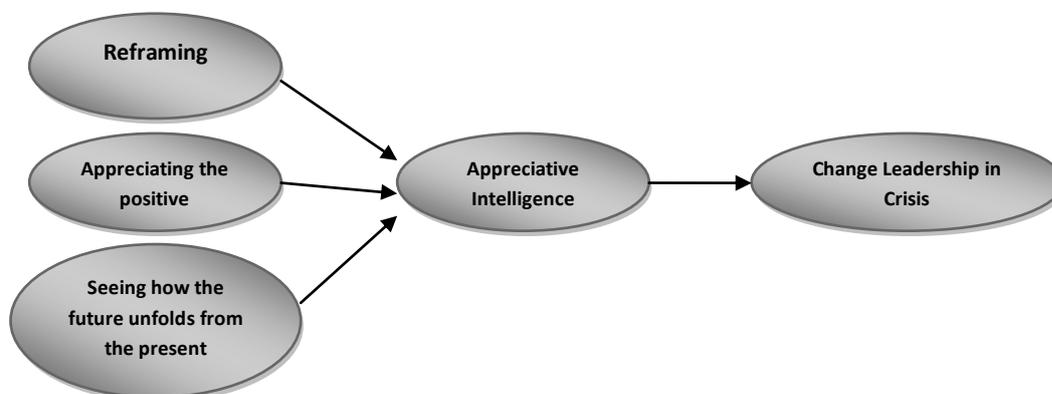


Figure 5: A Model for Change Leadership in Crisis based on “Appreciative Intelligence”

This concept is powerful tool for change leadership. There are three components of Appreciative Intelligence that change leaders need to develop:-



- **Reframing:** A leader with appreciative intelligence reframes what is in the present, thereby shifting a new view of reality and new outcome.
- **Appreciating the positive:** This is the ability to view everyday reality – events, situation, obstacles, problems with appreciation.
- **Seeing how the future unfolds from the present:** This is the ability to see the generative possibilities of the present moment-how the future can unfold from the present.

7.3 Developing Responsible Competitiveness:

Competitiveness is one of the most used and abused terms in modern economics. A competitive society does not mean sacrificing everything on the altar of growth nor a race up the competitiveness ladder, nor economic performance at all costs. Instead, competitiveness should be all-encompassing to be sustainable with societies and companies incorporating social and environmental concerns into their competitiveness strategies.

Responsible competitiveness should comprise the following:

- Tackling social/income imbalances
- Financial responsibility
- Corporate social responsibility
- Free and open trade – responsible multilateralism
- Responsible stewardship of the environment

7.4 Building Employee Engagement:

- Employee engagement is an emotional attachment between an employee and his or her workplace.
- When a company is in trouble – as many are these days – employee engagement can be the difference between surviving or not. Keeping engagement alive in a good market takes effort and commitment from the top. Leaders must do even more to keep their managers and employees engaged when bad economic news can distract or frighten employees. The big challenge to executives is that uncertainty breeds fear. And fear feeds on itself. *First, leaders must keep managers focused on meeting their employees emotional needs with unflinching predictability.*
- Fear and uncertainty can erode an organization's well-being, but there are steps leaders can take to build confidence and avoid the paralysis or stagnation caused by relentless bad news. *Helping their employees feel secure and cared for, providing clear communication, and leading with honesty and hope can go a long way toward bolstering engagement.*

VIII. Conclusion

In the current leadership research, a lot of store is set up by the contingency or situational leadership models. A leader is successful only if he or she can change behavior and style in accordance with the needs of situation. Quite often, a leader who is superbly successful in one situation completely fails when the situation undergoes a radical change. Even the people who do not agree with this model of leadership agree on one point. Crises require a very different sort of leadership than normal times. The times of crisis are the real test of the leadership ability and emotional balance of leaders. The leaders who are able to exercise creative thinking, take bold steps and follow a consistent ethical approach are the ones who steer their organization ahead in turbulent times. During crisis a leader needs to recognize and manage priorities. If a leader does not know how to set priorities and does not start to lead with the most important crisis issues, a lot of damage can be done.

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