Leadership in Turbulent Times: Competencies for Thriving Amidst Crisis

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LEADERSHIP IN TURBULENT TIMES: COMPETENCIES FOR THRIVING AMIDST CRISIS

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Abstract

Many organizational leaders have a laissez faire attitude toward the possibility of a crisis happening in their firm, despite the high probability that every business leader and every organization will experience a crisis of some significance. Consequently, leaders are underprepared not only for “managing” crisis situations when they occur, but also—and more important—for leading organizations in turbulent times with a vision or expectation that they and their organizations can be positively transformed by the experience.

This article proposes that there is, in fact, a difference between crisis management and crisis leadership, and that what differentiates firms that thrive following a crisis from those that do not is the leadership displayed throughout the crisis-management process. Using years of prior research, we introduce six competencies for leading amidst crisis. Our framework of crisis-leadership competencies goes beyond managing corporate communication to highlighting the notion that the best crisis leaders are those who build a foundation of trust not only within their organization, but also throughout the supply chain. 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. The article’s concluding message describes a study that conveys the significant impact of crisis leadership.
LEADERSHIP IN TURBULENT TIMES: COMPETENCIES FOR THRIVING AMIDST CRISIS

Quick – a reporter confronts you as you leisurely stroll to your car at the end of a long day. She shoves a microphone in your face while the glare of the video camera temporarily blinds you. All you hear is, “Excuse me Mr. CEO, how do you respond to the widespread allegations of corporate fraud (can also substitute sexual harassment, mismanagement, discrimination, unethical behavior and more) by senior executives in your company.” You are completely caught off guard yet clearly you are expected to say (and do) something.

Such a scene has become all too familiar to many, albeit still a minority of, executives in recent years, and the consequences of mishandling these and other crises on a firm’s reputation can linger for decades. We want to emphasize that it is often the (mis)handling of crises, not the crisis itself, that can have the most severe consequences, positive and negative 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 tablets 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 the Exxon Corporation 15 years after an accident where the oil tanker Valdez precipitated one of this nation’s most extensive oil spills off the coast of Alaska. 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.

For obvious reasons, the comparison between J & J and Exxon is essentially one comparing apples to oranges. J & J was the victim of product tampering. In other words, the crisis was perceived to be beyond their control. So although J & Js corporate culture and leadership significantly contributed to creating a successful outcome to a tragic situation, stakeholders were sympathetic to the organization and its leadership because of J & Js victim status in the crisis. Conversely, with the Valdez accident, circumstances were such that the public placed fault on Exxon employees and management for the crisis. As research has shown, it is difficult to recover when the organization and its leadership are blamed for a crisis, regardless of the response strategy employed by the firm for resolving the situation. Our point is that one cannot overstate the notion that crisis situations and the handling of them can literally make or break a firm’s long-term reputation. Moreover, as we describe below, a bad reputation can have debilitating effects on a firm’s financial health and even survival.

In this paper 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. Communication and PR activities are a necessary but insufficient approach to leading an organization through crises. Rather, we argue that the best crisis leaders are those that build a foundation of trust not only within their organization, but throughout the supply chain. 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 seem appropriate for business leaders in all situations – and they are. Displaying these leadership competencies during times of crisis, however, poses a unique challenge. There is the tendency, for example to make crises go away, resulting in decisions and actions that are oftentimes suboptimal (e.g., cover-ups and deception). These shortcuts can ultimately 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 short, in today’s competitive business environment, developing the appropriate 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. Examples of both types are provided in Table 1.

Table 1
Types of Organizational Crises

<table>
<thead>
<tr>
<th>Sudden Crises</th>
<th>Smoldering Crises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural disasters</td>
<td>Sabotage</td>
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<tr>
<td>Terrorist attack</td>
<td>Hostile takeover</td>
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<tr>
<td>Plant explosion</td>
<td>Executive kidnapping</td>
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<tr>
<td>Workplace violence</td>
<td>Environmental spill</td>
</tr>
<tr>
<td>Product tampering</td>
<td>Technology disruption</td>
</tr>
<tr>
<td></td>
<td>Product defects</td>
</tr>
<tr>
<td></td>
<td>Rumors/scandals</td>
</tr>
<tr>
<td></td>
<td>Workplace safety</td>
</tr>
<tr>
<td></td>
<td>Bribery</td>
</tr>
<tr>
<td></td>
<td>Sexual harassment</td>
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</table>

_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 located in New York’s World Trade Center and surrounding areas, and the Pentagon in the metropolitan Washington, D.C. area, 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, leaving employees, customers, and other stakeholders 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

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the leaders of the affected firms. As was true with the J & J incident, there was an outpouring of support for the leadership of these organizations – at least initially.

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.

Smoldering crises are those events that start out as small, internal problems within a firm, become public to stakeholders, and, over time, escalate to crisis status as a result of inattention by management. According to the ICM database, nearly three-quarters of all business crises fall in the smoldering category. Consider, for example, the plethora of cases of corporate fraud, mismanagement, labor disputes, and class-action lawsuits reported in the news media in the early 2000s. Such events have been the downfall of firms like Enron, Arthur Anderson, and WorldCom and have wreaked havoc on others such as Microsoft, ImClone Systems, and Adelphia Communications.

Unlike sudden crises, smoldering crises are generally perceived as the responsibility and fault of a firm’s leadership. For example, 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

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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 for White and minority employees were a function of poor management and led to a costly crisis situation.

Generally speaking, stakeholders respond much more antagonistically to crisis situations that are perceived to be the fault or responsibility of management. Consequently, on average, these organizations tend to suffer much more reputational damage than do firms experiencing sudden crises. As we’ve already indicated, however, it’s not the crisis itself that necessarily threatens an organization, but the handling of the crisis. Therefore, a well managed smoldering crisis will likely due 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. In a subsequent section, we will build on this framework in order to showcase a model of leadership competencies for managing organizations in turbulent times.

Phase 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. This likely occurs for several reasons. First is an illusion of invulnerability leading people to think that serious problems only happen to other people. Second, and in a related manner, are ego defense mechanisms, such as denial, that allow leaders to preserve a pristine image of themselves and

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their organizations even in light of information or evidence to the contrary. Lastly, and even more troubling, is a failure in signal detection precisely because it is the decision making and behavior of organizational leaders that are contributing to the pending crisis. This is an all too common occurrence as represented by the statistic that over 50 percent of all crises are sparked by management activity.

**Phase 2 Preparation/Prevention:** The preparation and prevention phase 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. This 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.

**Phase 3 Containment/Damage Control:** Containment and damage control tend to preoccupy management time and attention when crises occur. Indeed, it is these activities that people associate with crisis management. Clearly, this is an important step toward business recovery (phase 4) and the goal of this phase is to limit the reputational, financial, and other threats to firm survival in light of the crisis. Effective managers of damage control and containment are those that execute a strategy that ends the crisis. As we highlight later, however, ending a crisis is not the same as leading a firm through a crisis with the (dare we say) vision of being a better organization as a result of the crisis experience.

**Phase 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.

*Phase 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 as follows: crisis event occurs; firm scrambles to contain the crisis; crisis is eventually resolved. In a learning approach the same stages would occur, but 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 a necessary precursor to developing the leadership competency to successfully lead organizations in turbulent times. Table 2 identifies key questions associated with each phase that leaders may want to consider in preparation of becoming crisis leaders rather than crisis managers. We use these phases as a backdrop to focus leaders’ attention more explicitly on the knowledge, skills, and abilities (a.k.a. competencies) needed to holistically address business crises.

### Table 2

**Asking the Right Questions for Each Crisis Phase**

<table>
<thead>
<tr>
<th>Crisis Phase</th>
<th>Questions Leaders Ask</th>
</tr>
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<tbody>
<tr>
<td><em>Phase 1 – Signal Detection</em></td>
<td>• What are the organization’s vulnerable areas?</td>
</tr>
<tr>
<td></td>
<td>• How can the organization’s vulnerable areas result in a crisis?</td>
</tr>
<tr>
<td></td>
<td>• What situations and practices does the organization ignore that may lead to a crisis?</td>
</tr>
</tbody>
</table>

| Phase 2 – Preparation/Prevention | 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 3 – Containment/Damage Control | 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 4 – Business Recovery | Is the organization positioned to implement a strategy for limiting damage during a crisis?  
| | How does the organization control crisis-related information?  
| | Who are the stakeholders with whom the organization needs to be concerned, and what do we need to do to satisfy them?  
| | What message should the organization communicate to stakeholders and how should it communicate them? |
| 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
Crisis Leadership: Six Competencies for Using Crises to Promote Organizational Change

Traditionally, firms in crisis adopt crisis management activities associated with the containment phase described earlier. This phase often encourages a one-dimensional focus either on communication and public relations (PR) concerns (as depicted by the scenario described at the beginning of this article) or on legal concerns. Moreover, in our own research we found that damage control activities tend to be defensive or reactionary; and understandably so given that firms in crisis are swimming up tide against the rip current of 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 holistically. We’ve identified six core competencies for crisis leadership. These competencies and their relationship to the crisis phases described earlier are depicted in Figure 1.
Figure 1

Crisis Leadership Competency Model

Crisis Phases

- Signal Detection
- Preparation/Planning
- Containment
- Business Recovery
- Learning

Competencies

- Building Trust
- Changing Corporate Mindset
- Identifying Vulnerabilities
- Wise and Rapid Decision Making
- Courageous Action
- Learning that Promotes Change

Organizational Change / Renewal

Building a foundation of Trust

If there is no trust organizational decision making and strategy implementation are doomed to fail. While the failures may not be immediate, they are imminent. 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 on behalf of their organizations; the need for customers to have faith in the products or services rendered by the firm; and the need for business partners to expect mutually serving intentions. What this means for business leaders is that they 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 the perceived or actual breach of explicitly or implicitly communicated expectations. Acts of betrayal are painful to the betrayed and difficult, if not impossible to overcome. Unfortunately, betrayal is an all too common experience in organizations and can result in an overall loss of credibility for the very institutions on which most societies depend. When a corporate betrayal affects enough people, a crisis ensues. Take for example the wide spread 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.

Denny’s may have averted this crisis if a culture of trust had existed in the organization. To build trust leaders need to communicate openly, honestly, and often. A willingness to share information sends a signal to stakeholders that they are important. Sharing information however is risky. The information can be used against the leader or against the firm. Sharing information may also be perceived as a sign of weakness because access to information is power and by sharing it, one is essentially giving power away. In addition, some messages that leaders need to communicate may reflect poorly on themselves or on 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. Thus if leaders expect trust from those in their organizations, they must be prepared to act in a trusting manner with others

Although Denny’s learned this lesson after its racial discrimination lawsuit, it did eventually focus its efforts for rebuilding the stakeholder trust with both internal and external
audiences. Internally memos were sent to employees describing information about the lawsuit, admonishing discriminatory practices going forward, and thanking the majority of workers who did not discriminate. Trust building communication to external stakeholders began when Denny’s accepted the blame and apologized for discriminatory incidents in their restaurants. The sincerity of this message was reinforced with television advertisements highlighting the company’s pledge regarding its anti-discriminatory policies. The commercial conveyed that this pledge was signed by all of Denny’s employees.

Building a foundation of trust also involves managing expectations. Explicitly communicating what it is you expect of others is imperative. Inferences and other implicit communication open the door to misunderstandings and misperceptions, as well as inappropriate behavior and justification for that behavior. After the discrimination crisis, Denny’s communicated the organization’s new philosophy through rigorous diversity training programs⁴. All 70,000 employees – from the board of directors to restaurant hosts - were required to attend training, which clearly defined Denny’s expectations of its employees with regard to preventing discrimination. In addition, the training provided employees with tools for creating an inclusive organization. Denny’s backed up its training with a range of penalties for employees who did not conform to the company’s policy⁵.

As evident with the Denny’s example, a part of managing expectations is setting high yet achievable benchmarks for performance outcomes and processes and making those expectations explicit to all relevant parties. Setting high expectations presumes that leaders trust the abilities of those around him or her. Generally, people are more likely to perform at high levels when

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⁵ Adamson, J (2002). How Denny’s went from icon of racism to diversity award winner. Journal of Organizational Excellence, Winter,
leaders display trust in their competence and abilities. Conversely they are likely to under perform when low expectations are set. In short, building trust establishes a platform or foundation upon which the remaining crisis leadership competencies are based.

Creating a New Corporate Mindset

Organizational leaders are influenced by a number of external factors. Chief among them is the need to respond to stakeholders that have power over the firm. For publicly owned organizations, the individual and institutional investors that have certain expectations of firm performance represent one such group. In recent years, some organizations have succumbed to this pressure in ways that are both unethical and illegal, as evidenced by recent accounting-based crises that have been the downfall of several prominent firms. 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 external pressure of profit and performance has given rise to a corporate mindset focused primarily on a single stakeholder. Consequently, decisions are made and behaviors are adopted and encouraged that are perhaps too narrowly focused. Moreover, once leaders experience success in satisfying a particularly influential stakeholder group, and are rewarded for that success, pressure intensifies to keep doing so, thereby, and oftentimes unintentionally, creating a mindset that allows for risky behavior. For instance, some managers at Denny’s blame the crisis that led to the discrimination lawsuits on the pressure to raise profits after Flagstar acquired the Denny’s chain in 1987.6 In some locations, management of the restaurant

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chain assumed the best way to achieve profit goals was to treat undesirable customers differently or deny them service. Take for instance the African-American teenagers who accused Denny’s of discrimination. They were asked to prepay for their meal before being served. This was a strategy that some Denny’s locations had adopted to ensure payment from certain customer groups. Other restaurants adopted a “blackout” policy that denied services to Black customers when they became “too numerous” as a profit-maximizing strategy.

The challenge we pose to corporate leaders is to create a new more expansive mindset. This includes recognizing the value in all that an organization does, including providing shareholder wealth. By taking a big picture approach leaders will see their organizations more holistically and recognize and appreciate their responsibility and accountability to employees, customers, suppliers, business partners, communities, and shareholders. In so doing, they will be forced to make decisions and enact behaviors that take into consideration multiple perspectives. Leading organizations with this expanded mindset reduces the likelihood that crises will emerge because leaders will need to weigh the cost of their decisions and actions on multiple constituencies.

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, all stakeholders were engaged in the process and empowered to create solutions.
Identifying the (not so) Obvious Firm Vulnerabilities

With the new, expanded corporate mind-set should also come a concerted effort to identify firm vulnerabilities. Clearly in a manufacturing environment, for example, workplace safety and equipment malfunctions are obvious crisis triggers. The crisis “management” mind-set readily allows for and plans for such inevitabilities. Yet crisis leaders will anticipate and consider the less obvious scenarios such as intentional sabotage of machinery, or worse 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.

The need to identify less obvious organizational vulnerabilities is easily understood but difficult to adopt in part because of ego needs and psychological defense mechanisms that prevent us from thinking negatively about ourselves or the organizations in which we are a part. It is even more challenging to acknowledge the possibility that organizational members may play a role in crisis situations. Consider for example the employee who commits acts of violence toward co-workers, or in Denny’s case the discriminatory behaviors promoted by management and implemented by employees. In this example Denny’s leadership failed to anticipate the negative consequences of what must have seemed like a reasonable business strategy. In other words, they failed to see the way in which the organization was vulnerable to its own decision-making.

Leaders must continually challenge themselves to consider not only undesirable situations but also what their role is in creating environments where bad things happen. At Denny’s this began with management honestly acknowledging the firm’s problems with discrimination. After acknowledging the firm’s vulnerabilities, management made structural and
policy changes that would help minimize this vulnerability in the future. For example, Denny’s broke down silos after recognizing that such a design prevented the organization from creating an organization-wide system for recruiting and developing minority talent in the firm.

**Making Wise and Rapid Decisions**

Crisis leadership also involves the *ability to make wise and rapid decisions*. Traditional approaches to decision making involves 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 a select group of others. For example, oftentimes firm leaders who find themselves managing a crisis will solicit the advice of their corporate counsel. On the surface this is an obvious and appropriate step to take. However, in our research we found that it is not advice these leaders are seeking, but rather clear-cut decisions for how to proceed. This likely explains why the most common initial crisis communication is a denial or a no-comment. Lawyers often encourage leaders to say as little as possible or to deny allegations altogether in order to avoid or limit legal culpability. Denials are fine if in fact the firm is completely guilt-free of any wrongdoing, but time and again we find that those same firms are forced to back peddle and engage in even more damage control when additional information suggesting firm guilt becomes public.

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. Experts are those 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 will often rely on expert opinion during crises because of the amount of uncertainty often associated with crisis situations. Because of their deep knowledge base, experts can often reduce this uncertainty. 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 best positioned to make appropriate decisions. The narrow focus of the expert is important, but only in the context of the leader’s big picture perspective of the firm.

The key to decision making in times of crisis, then, is to gather as much input from a wide variety of others as time will allow, and then make a decision in light of the information gathered and the leader’s own insight. 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. Rather by moving quickly to end that portion of the crisis, leadership was then able to focus efforts on creating an organization resilient of future accusations of discrimination. 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.

To help leaders make difficult decisions we encourage them to think long-term. Ask yourself what it is you want the organization to achieve, both overall and in resolving the immediate crisis. In addition, we suggest that leaders think about the situation on their own before consulting others. By mistakenly focusing on the short term goal of ending a crisis and giving too much weight to the opinions of perceived expert, leaders will likely abdicate ultimate decision-
making power or expend energy satisfying one or a small group of stakeholders to the exclusion of others.

**Take Courageous Action**

Another competency of crisis leadership is to *take courageous action*. Executives consistently rate courage as an important competency and a desired trait for future leaders. In times of crisis, however, the tendency to become risk averse is strong. There is already 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 is counter-intuitive or 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. This leads directly into our last competency.

**Learning from Crisis to Effect Change**

Most business crises do not have to be the downfall of an organization or its leadership. In fact, 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.

It is no accident that the term “fighting fires” has been used to refer to the barrage of issues, big and small, that surface and call leaders attention away from running the business. In fact, you will often hear people talking about their organization being in constant fire fighting mode. There are two reasons for this. First, fighting fires is exciting – it is where the action is. People want to feel useful and needed, and firefighting allows them to feel as if they are contributing to their organizations. Second, fighting fires gives the illusion that work is getting
done. Managing by deadlines, responding to or meeting the needs and demands of others, and putting out the fire provides tangible evidence of “productivity”. But ask yourself, at the end of the day what have you produced? There is a difference between being busy and being productive. Oftentimes we are too busy to be productive.

Consider for a moment the role of legitimate fire fighters. They respond to emergency calls and devote 100 percent of their mental, emotional, and physical resources to putting out the blaze and saving lives. No small or insignificant feat to be sure! Yet when you consider what they have actually created, the answer is very little. They are an organization whose primary purpose is to react to crises. Corporate businesses cannot afford to manage in this same way. They exist not to react to market trends or employee concerns, but to manufacture products, provide services, and create value. In short, the opportunity costs of fighting fires are great. So much so that firms that are constantly managing in this reactionary mode are less competitive in the marketplace.

Keeping with our firefighting metaphor, in recent years firefighters have recognized that firefighting is a necessary but insufficient contribution to society. Today many fire departments are expending a great deal of effort on fire prevention and safety. In addition, they are deliberately taking time in the fire house to reflect on the last fire fighting effort in order to understand the causes of the blaze, and to evaluate and adapt their processes for future fire fighting events.

Likewise, and perhaps ironically so, we believe that in order to lead organizations for the future, leaders need to spend time in their own firehouse. Following crisis situations leaders should engage in a great deal of reflection about the crisis, why it was spawned, and the
organization’s response to it. In other words, leaders need to spend some time debriefing the past in order to prepare for the future.

Firehouse time is essentially a time for learning. Leaders who develop the competency to learn from crisis situations will be far ahead of those leaders that manage predominately from the fire grounds. Learning entails examining the organization - its culture, policies and procedures - in such a way that the root causes of crises can be exposed. Learning entails facing information that might suggests that fault lies with the leadership of the firm. Learning entails encouraging and rewarding people that communicate truthful information about problems in the firm. Learning entails sharing information. Learning entails making changes to the organization that fundamentally revamp systems or remove people that are toxic to the organization. Learning entails adopting a proactive and corrective approach to crisis situations rather than a defensive and reactionary one.

A leadership approach to crisis management requires an investment of time, energy and resources. Quite simply, it 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**

Although our approach to crisis leadership is fundamentally more than about managing specific crisis situations, these leadership skills are most evidently displayed during a crisis. In this way, it is much like a baseball game in that fans most enjoy the “mistakes” on the field that result in hits and runs by one team and forces defensive strategies by the opposing team. Yet the
best played baseball games are those in which hits and runs do not occur. In other words, baseball is really about preventing these mini crises. But fans usually view such games as boring because they are unable to see the action (e.g., player diving to catch a fly ball and prevent a run) in the game. Similarly, 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.

Just as the best baseball pitchers rarely pitch a perfect game, (Randy Johnson’s recent no-hitter against the Atlanta Braves notwithstanding) 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. Thus we examined the courageous action competency in a study in which 132 MBA students evaluated an organization’s (fictitiously named ACME, Inc.) 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 were then presented with one of three firm response scenarios. These scenarios ranged from those that were crisis management focused to those that were crisis leadership focused. External evaluators had previously rated the various scenarios to determine the extent to which the scenarios represented a crisis management, crisis leadership, or combination approach. For example, the scenario depicting a firm decision maker responding with rhetorical denials of the allegations and defensive, reactive, damage-control based activities was labeled crisis management; whereas the scenario depicting firm rhetoric that acknowledged the crisis situation and took a proactive and corrective stance was labeled crisis leadership. The proactive and corrective strategic approach is consistent with the taking courageous action
leadership competency in that the adoption of such behaviors fundamentally goes against conventional wisdom and oftentimes legal counsel suggesting that firms deny such allegations.

Participants were randomly assigned to a crisis response scenario, and using a survey design, 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 participants rated the crisis leadership firm response significantly more favorably than either the crisis management or combination strategies. In other words, crisis leadership responses were associated with higher firm reputation ratings than were crisis management responses. Figure 2 illustrates our results. These findings are particularly meaningful in light of firm desires to attract and retain top talent in the organization. If employees or potential employees view the firm in a negative light, their commitment to the organization and interest in joining it will likely decrease.
Is there a difference between crisis management and crisis leadership? Our research over the past 8 years indicates that the answer is an unequivocal YES! And while crisis management activities are an important component of overall crisis leadership, 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. The consequences of not building and using a repertoire of crisis leadership competencies are severe, as we illustrated in the study described above. So, although the crisis leadership competencies we have outlined here are emerging, as scholars, practitioners, and executives begin the transition from the traditional crisis management strategies (e.g., managing public relations and firefighting) to a crisis leadership stance we fully expect to see a decrease in smoldering crises coupled with an increase in organizations’ capabilities for learning from and leveraging those crises that do occur.