Leadership and Crisis Management

Professor Jorg Spenkuch
Kellogg Global Hub 3133
Evanston Campus
847-467-0921

j-spenkuch@kellogg.northwestern.edu

Course Overview

Business, it seems, has entered the age of crisis. Every day another major company enters the headlines, and usually not in a flattering context. These trends are further amplified by an ever-faster-moving global news cycle and are scrutinized by activists, interest groups, and an increasingly skeptical public. Crises have been frequently conceptualized as threats, but they can also provide opportunities. Seizing such opportunities requires an understanding of the company’s position in the broader business environment as well as a set of strategic frameworks for effective crisis response.

Increased globalization and the use of information technology have further accelerated these trends. Moreover, as political activists, NGOs and the media begin to recognize the increasing importance of businesses in bringing about social change, companies will find themselves the target of activists that hope to advance their cause. Since many stakeholders are frequently motivated by moral concerns, companies are being held accountable by standards other than legal constraints or financial performance. As a consequence, companies increasingly find themselves as targets of aggressive legal action, media coverage and social pressure. Recent examples include environmental protection, global labor standards, animal rights, privacy and security in e-commerce, corporate scandals and executive pay, socially responsible investing, and product safety. These challenges are particularly critical for market leaders. Market leaders cannot merely rely on following industry standards in environmental or international labor regulations.

One of the key challenges presented by these developments is that they do not arise from the usual, contract-based interactions that characterize “normal” business interactions. Animal rights activists do not contract with pharmaceutical companies. They use aggressive, unexpected tactics designed for maximal visibility and shock effect to force industry-wide change to advance their goals. Hence, companies frequently encounter these issues in the context of unexpected events that lead to a corporate crisis.

This class will focus on crisis management from the point of view of managers and consultants. To anticipate and manage crises successfully, managers need to combine strategic thinking with an awareness of the importance of the ethical dimensions of
business. That is, managers not only need to understand the motivations and strategic capabilities of stakeholders, but also should appreciate the importance of value-based management in preventing and managing corporate crises.

This class is based on experience-learning: a rich set of case studies and crisis simulation exercises balance the theoretical and conceptual frameworks and will help participants to improve their strategic thinking as well as team management and communication skills in high-stress situations. Students should be prepared to be challenged and work hard.

**Key Benefits**

During this class, you will:

- Challenge your basic beliefs about the nature of crisis
- Learn to scan your business practices for reputational, political, and regulatory risks.
- Anticipate and prepare for potential crises
- Explore techniques for successfully solving problems in high-pressure, crisis situations characterized by complex decision environments, time-pressure, high stakes, unanticipated events, and information overload
- Develop strategies for managing stakeholders, public opinion, media relations, and public officials
- Design reputation management strategies and processes
- Integrate your crisis management approach into your overall business strategy

**Readings**

Although not required, you are strongly recommended to obtain the book *Reputation Rules: Strategies for Building Your Company’s Most Valuable Asset. New York: McGraw-Hill (2011)*. The book was specifically written for this class and contains various frameworks and case examples. The book is available at the Northwestern University bookstore, on Amazon.com (hardcover and Kindle editions), and on BN.com (hardcover and Nook editions). The remainder of the readings and course materials are available through the XanEdu course pack link in Canvas.

**Course Requirements and Grading**

In class we will only briefly review the class readings. They serve as a point of departure for our discussions. It is therefore important that you cover the class readings in time for each session.

Students are expected to master the content of the readings, to make constructive contributions to class discussions, to participate successfully in group exercises and presentations, and to perform adequately or better on a final examination. Grades in the course will be based on three components: (1) a final exam which will count 45 percent; (2) group assignments and simulations which will count 40 percent; and (3) class attendance and participation, which will count 15 percent.

**FINAL EXAM:** The final will be an individual, in-class, “closed book” exam consisting of short questions that will cover the assigned readings, cases, and lecture material for all classes. In addition, you may have to answer some short essay questions. This is an
individual assignment, and you must not discuss your work or the case with anyone other than me.

GROUP WORK: Group assignments and simulations are an integral part of class discussion. You will be assigned to a group at the beginning of class. I encourage you to meet with your study group on a regular basis, but you are not required to do so.

However, during the simulation exercise you may be asked to prepare group presentations. The chosen group is responsible for all aspects of the presentation such as keeping time, handling questions, etc. All other students are expected to take the role of clients, directors, or partners (depending on the governance structure of the firm and the details of the assignment). Group assignments are in-class simulations of real-world tasks. It is thus important that you take the role-playing aspect seriously. We will randomly choose groups to present and defend their analyses.

PARTICIPATION and ATTENDANCE: Attendance, preparation, and participation are essential for this class to be value-adding. If you have to miss class, please let me know in advance. Much of the learning in this course comes from class discussion of cases or homework assignments. Learning opportunities are maximized when a student is actively engaged in the class discussion.
COURSE OUTLINE

Session 1: Friday, February 22
Crisis Leadership Basics: Lead with Speed
In every career there inevitably comes a moment in which you are part of a team that is forced to make a high stakes decision under significant time pressure. How you and your team perform in crisis can be the difference between achieving personal and organizational success or being sidelined. In this session we focus on understanding two basic problems present across all crises: the need to aggregate information and the need to coordinate action. A tension almost always emerges between those with vital information and those with the authority to command action. The ability of teams to negotiate this tension in real time is central to good crisis management.

Reading: The Crisis Lifecycle (Excerpts from Reputation Rules pp 186-189 and 239-245)

Session 2: Friday, February 22
Strategic Risk and Crisis Communication
To develop and implement successful crisis management strategies leaders need to be able to assess a variety of emergent risks including threats to reputation as well as legal, governmental and regulatory risks. In this session we introduce a framework for assessing institutional risk and outline strategic approaches for each type of risk. Understanding and assessing risk requires leaders to understand the necessity and limitations inherent in crisis communication with stakeholders. This, in turn, requires an ability to identify key stakeholders, understand their motivations and capacity for action.

Reading: Four Factors that Build Trust (Excerpt from Reputation Rules pp 21-25)
U.S. Is Said to Offer Another $30 Billion in Funds to AIG
Washington Post series on AIG (optional, not mandatory)

Preparation Question (no need to hand in an answer)

Assume the position of AIG’s CEO Edward M. Liddy. AIG was contractually obligated to pay about $220 million in employee retention payments for 2008, $55 million of which were paid in December 2007 and $165 million were required to be paid by March 15. Your legal department views these agreements as valid and considers any legal challenge to the agreements “extremely unlikely” to succeed. Your governmental affairs office, however, tells you that much of the public will likely be outraged by such payments and that you will be called in front of a Congressional hearing to explain whatever decision you might make about the payments.

You need to make a decision on whether to make the March payments and be prepared to comment on AIG’s position in class. You do not need to submit your answer. Please DO NOT conduct any additional research on AIG other than the documents supplied in the course reader. As much as possible, I want you to assume the
position of AIG’s CEO at the time, without the benefit of hindsight from subsequent developments.

**Session 3: Saturday, February 23**

**Crisis Simulation A**

This session will simulate a crisis scenario. To prepare for the simulation you should read the case. **YOU MUST BRING YOUR LAPTOP TO CLASS FOR THIS SIMULATION.** Readings and assignments will be distributed in advance and during the simulation.

Case: Monument Hotel

**Session 4: Saturday, February 23**

**Crisis Simulation A – Debrief, and Managing Activist-Generated Crises**

Corporate crises often involve political and social activists. Indeed, activists are adept at leveraging media coverage to promote their goals. Understanding the role and impact of activists on business strategies is therefore a key component of successful crisis management. This is especially true for multi-national companies in consumer goods markets.

Reading: None

**Session 5: Saturday, February 23**

**Managing the Media during a Crisis**

Corporate crises always involve the media to some extent. Understanding the role and impact of media on business strategies is therefore a key component of successful crisis management. Companies need to be able to anticipate emerging issues that engage the media and activists, and to assess their potential business impact.

Reading: Reputational Terrain (Excerpt from *Reputation Rules* pp 61-71)
Case: Mercedes and the Moose Test (A)

**Preparation Question (no need to hand in an answer)**

Assume the position of Mercedes’ CEO. You have been advised by your public relations team that Mercedes should hold a press conference. You need to make the following decisions: Should Mercedes hold a press conference? How soon? Who should Mercedes send to the press conference? What should they say?
You do not need to submit your answer. Please DO NOT conduct any additional research on Mercedes other than the documents supplied in the course reader. As much as possible, I want you to assume the position of Mercedes’s CEO at the time, without the benefit of hindsight from subsequent developments.

Session 6: Saturday, February 23  
Crisis Preparation and Prevention  
The main difficulty in preparing for and preventing crises is that warning signs are misinterpreted or weighted incorrectly. Correctly assessing the potential crisis from a strategic perspective helps reduce information-processing mistakes.

Case: Sony Pictures Hack

Session 7: Friday, March 1  
Crisis Simulation B  
This session will simulate a crisis scenario involving activists and the media. Readings and assignments will be distributed in advance and during the simulation.

Reading: None  
Case: To be distributed

Session 8: Friday, March 1  
Crisis Simulation B – Debrief  
This session will simulate a crisis scenario involving activists and the media. Readings and assignments will be distributed in advance and during the simulation.

Session 9: Saturday, March 2  
Leadership in Crisis  
The final class will focus on the critical role played by leadership in crisis situations, the importance of sorting out and acting on core values.

Reading: None

Session 10: Saturday, March 2  
Final Exam  
Reading: None