Leadership and Crisis Management

Professor David Austen-Smith
Wieboldt Hall
Chicago Campus
847-467-3798
dasm@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, the responsibility of companies in battling the global AIDS/HIV crisis, 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 study.net/Kellogg.

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 connect with your study group whenever you can during the week, but you are not required to do so.

During the simulation exercises 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 October 6
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.

Session 2: Friday October 6
Institutional 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.

Case: AIG Letter from Liddy to Geithner (In Xanedu Packet)

Assignment 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 prepare any written materials or Power Point presentations.

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 October 7
Crisis Simulation A
This session will simulate a crisis scenario. To prepare for the simulation you should read
the case and watch a brief video on how to use the software intrinsic to the simulation.
YOU MUST BRING YOUR LAPTOP TO CLASS FOR THIS SIMULATION.

Case: Monument Hotel

Session 4: Saturday October 7
Crisis Simulation A – Debrief
During this session we will debrief the simulation exercise.

Reading: None

Session 5: Saturday October 7
Proactive Stakeholder Management
Corporate crises often involve political and social activists and always involve the media
to some extent. Indeed, activists are adept at leveraging media coverage to promote their
goals. Understanding the role and impact of both the news media and 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. Companies need to be able
to anticipate emerging issues that engage the media and activists, and to assess their
potential business impact. Moreover, two of the main drivers for reputational crises are fear
and moral outrage, putting a premium on an appreciation of business practices and market
strategies from the point of view of different value and belief systems.

Reading: Excerpt from Reputation Rules pp 61-73
Case: Thalidomide (A)

Session 6: Saturday October 7
Understanding the Crisis Lifecycle
All economies are shaped by formal and informal norms and regulations that structure
market competition. These “rules of the game” vary significantly across countries and their
enforcement, in many cases, is limited. Moreover, the rules per se are not fixed, well-
defined constraints, but are determined, implemented, and interpreted by legislatures,
government administrative agencies, judicial institutions, public sentiment, and moral
sentiment. The resolution of ambiguity and direction of change is neither exogenous nor
divorced from strategic considerations but requires a keen understanding of the capabilities
and motivations of various constituencies and the arenas where they operate.

Case: Sony Pictures Hack
**Session 7: Friday October 13**

**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, October 13**

**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, October 14**

**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:  Singer’s The Drowning Child and the Expanding Circle
Case:   Firestone’s Battle Against Ebola in Liberia

**Assignment** Firestone Liberia had more infrastructure, staff, and capabilities than most of the government or private hospitals in the country, and the Liberian government felt these resources should be used for the public good. The company faced the very real possibility that the government was going to take control of the Firestone Medical Center and its Ebola treatment unit. Margaret Levine, Vice President of Corporate Security, and the two Ebola Response Leadership Teams stood at a crossroads. How can they balance their duty to care effectively for employees and their families while also doing their part to help the rest of the Liberian people?

Your assignment is to develop a one page memo recommending the approach Firestone’s executive team should take in response to the possible intervention by the Liberian government. **Your group should prepare a one page memo and 3-4 power point slides. The one-page memo will be turned in at the start of class for credit as a group project. One group will be called on to give a 5-10 minute presentation to the executive team at the beginning of this class session. If your group is called you will use your slides as part of your presentation. Please DO NOT conduct any additional research on the Firestone and Ebola case other than the documents supplied in the course reader.**

**Session 10: Saturday, October 14**

**Final Exam**