Leadership and Crisis Management

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Course Overview

Every day, it seems, another major company enters the headlines, and usually not in a flattering context. Just below the headlines, following an almost classical form, the story presents the reader with a key figure who faced a difficult and important choice: a crisis. It is no surprise that underneath the headlines lurks a crisis because just such moments have been the central focus of drama since the dawn of time. For business and business leaders crises are often precisely the moment when reputations are made or broken. While wise leaders and businesses do everything possible to prevent crises they are nevertheless inevitable. It is what you do next that matters. The focus of this class is preparing you to face crises head-on through the development of tools and frameworks that will help you identify key issues and stakeholders as well as tradeoffs between different types of risk. Our goal is to make you a better member of a crisis management team and to prepare you to lead in crisis.

While some crises are inevitable, what may seem more surprising is how poorly many companies seem to perform when those crises occur. Partly our perception of poor performance masks an inadequate understanding about exactly what risks the company leadership is facing. But just as often it is the case that companies did not adequately anticipate let alone prepare to manage.

Preparation and prevention of crises requires an understanding of the factors that precipitate crises. At the top of the list for business is ever increasing globalization. Even 30 years ago many businesses might have pursued strategies that were largely immune from all but the largest global shocks. Today, however, even small companies that largely do business in one state or locality will nevertheless rely on partners and suppliers who have global reach. Larger companies are necessarily global. Doing business globally requires companies to be responsive across a range of contradictory social and political environments. Moreover, those same social and political environments are rapidly changing, in no small part due to that same globalization.
While globalization has been an issue for a generation or more, the emergence of disruptive technologies including social media platforms create problems that were almost unthinkable even a decade ago. Now we watch as a Tweet or YouTube video goes viral on a global scale. Stakeholders expect a response from top leadership at speeds previous generations could not have fathomed. An ever-faster-moving global news cycle and new technology expose business to scrutiny and attack from competitors, activists, interest groups, and even rogue governments. These technologies create an unprecedented urgency for companies facing crisis situations. The advantage of being able to respond to events more quickly puts a premium on crisis preparation and training.

Social and political change, disruptive technology and an overflow of unfiltered information has produced an increasingly skeptical and hard to persuade public. This raises the stakes for companies. Since many stakeholders are motivated by moral concerns, companies are being held accountable to standards beyond legal constraints or financial performance. Activists, NGOs and even rogue states are increasingly using new technologies to change the strategic landscape for business. 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.

At a deeper level business leaders are often unprepared for attacks on their reputation by activists. Often such attacks 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 how natural disasters and political upheaval create crises sometimes putting the health and safety of stakeholders at risk.
- Crises are dynamic events often starting as one kind of problem (e.g., an emergency or disaster) and then quickly presenting strategic risks including reputational, legal, political, and regulatory risks.
- Learn to scan the competitive environment and internal practices to 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.
- Learn about designing and leading crisis management teams as well as briefing executives on crisis options and recommended strategies.
- Integrate your crisis management approach into your overall business strategy

Readings
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 contains various frameworks and case examples and 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 essential that you have mastered the class readings in time for for each session.

Students are expected to master the content of the readings, to make constructive contributions to class discussions, to successfully participate 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 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 occasionally 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, January 19**

**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, January 19**

**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**

**Assignment** Assume the position of AIG’s CEO Edward M. Liddy. Your task is to prepare to discuss how you would write a letter to Timothy F. Geithner, United States Secretary of the Treasury, by March 14. The letter is to explain AIG’s position regarding previously agreed retention bonuses for employees in AIG’s Financial Products unit that had housed AIG’s credit-default swap business. 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 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.

You need to make a decision on the issue 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 when the letter was written, without the benefit of hindsight from subsequent developments.
Session 3: Saturday, January 20
Crisis Simulation A – Part 1
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: CR-2 Monument Hotel

Session 4: Saturday, January 20
Crisis Simulation A – Part 2
Debrief of simulation exercise

Reading: None
Case: To be distributed

Session 5: Saturday, January 20
Anticipating the Media and Activists
Political activists and other stakeholders are frequently the cause of unexpected corporate crises. This is especially true for multi-national companies in consumer goods markets. To improve their ability to manage crises effectively, companies need to be able anticipate emerging issues and assess their potential business impact. Fear and moral outrage are two of the main drivers for reputational crises. This requires an assessment of business practices and market strategies from the point of view of different value and belief systems.

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

Session 6: Saturday, January 20
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, January 26  
Crisis Simulation B - Part 1  
In this session students will conduct a second crisis management exercise.  
Case: To be distributed

Session 8: Friday, January 26  
Crisis Simulation B- Part 2  
In this class we will debrief a final crisis case and discuss the importance of values in anticipating and managing crises.  
Reading: None

Session 9: Saturday, January 27  
Leadership in Crisis  
The final class will focus on the importance of sorting out, communicating and acting on core values in crises.  
Reading: Singer's The Drowning Child and the Expanding Circle  
Case: Firestone’s Battle Against Ebola in Liberia

**Group Homework Assignment:** The Liberian government is threatening to take over Firestone’s medical facilities and repurpose them to treat Ebola patients from across the country. One very senior member of the executive team posed this question to the crisis team: “Given everything we have already done for them, why are we obliged to put our personnel and resources at further risk in Liberia? Where does it end? Why shouldn’t we not only turn over the medical facilities but begin the process of pulling out of Liberia permanently?” Using the template for briefing the executive from class prepare a two-page memo that makes recommendations about how Firestone should address the threat from the Liberian government. In addition your group should prepare one or two power point slides that address the question raised by the member of the executive team. The memo will be turned in for credit as a group project. One group will be called on to give a 5 minute presentation to the executive team on the executive’s question at the beginning of this class session. If your group is called you will use your slide(s) as part of your presentation. Please DO NOT conduct any additional research on the Firestone and Ebola case beyond the documents supplied in the course reader.

Session 10: Saturday, January 27
Final Exam