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Leadership as (Un)usual: How to Display Competence in Times of Crisis

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In recent years, U.S. newspapers and television news broadcasts have almost daily featured some company in crisis. Images of embattled companies and their leaders have become commonplace. The crises have ranged from corporate fraud in accounting procedures to allegations of widespread sexual harassment or discrimination. In almost all cases, the leaders of these companies are caught off guard, yet with the world watching, they are expected to say (and do) something to manage the situation.

The consequences to a firm's reputation from mishandling a corporate crisis 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 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, based on the company's response 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 Exxon Corp. 15 years after an accident where the oil tanker *Valdez* precipitated one of this nation's most extensive oil spills. 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 damage to its reputation.

For numerous reasons, the comparison between J&J and Exxon is essentially one comparing apples to oranges. Johnson and Johnson was the victim of product tampering. In other words, the crisis was perceived to be beyond its control. So although J&J's 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 the company's 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 crisis. Rather, we argue that the best crisis leaders are those who build a foundation of trust not only within their organization, but also throughout the organization's system. 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. First, leaders in crisis are forced to operate in full public view, with the media and others positioned to report and critique their actions. Second, during a crisis, there is the tendency to want to make the crisis simply go away, resulting in decisions and actions that are oftentimes suboptimal (e.g., cover-ups and deception). These shortcuts can ultimately undermine effective leadership. However, 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 crisis 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 wellbeing, reputation, or survival of the firm or some portion thereof.

In the terminology of the Institute for Crisis Management (ICM), there are two primary types of crisis situations: sudden and smoldering. Christine Pearson and Judith Clair identified a number of crises, which we position as either sudden or smoldering in Table 1.

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

TABLE 1 TYPES OF ORGANIZATIONAL CRISES

Sudden crises	*Smoldering crises*
Natural disasters	Product defects
Terrorist attack	Rumors/scandals
Plant explosion	Workplace safety
Workplace violence	Bribery
Product tampering	Sexual harassment
Sabotage	Consumer activism
Hostile takeover	Mismanagement
Executive kidnapping	Whistle blowing
Environmental spill	Class action lawsuits
Technology disruption	Labor disputes

York's World Trade Center and surrounding areas, and the Pentagon in the metropolitan Washington, DC 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. Employees, customers, and other stakeholders were left 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 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 into 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 Corp., Arthur Andersen, and WorldCom Inc., and have wreaked havoc on others such as Microsoft Corp., ImClone Systems Inc., and Adelphia Communications Corp.

Unlike sudden crises, smoldering crises are generally perceived as the 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 Inc. 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 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, smoldering 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 reputation 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 do less harm to an organization than will a poorly managed sudden crisis.

PHASES OF A CRISIS

Researchers including Ian Mitroff and Christine Pearson 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. The first is an illusion of invulnerability, leading people to think that serious problems only happen to other people. Next, and in a related manner, are ego defense mechanisms such as denial that allow leaders to preserve a pristine image of themselves and their organizations even in light of evidence to the contrary. Last, and most 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 data from ICM 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 which 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 financial and other threats to firm survival in light of the crisis. Effective managers of damage control and containment are those who 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 adopt 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 compe-

TABLE 2 ASKING THE RIGHT QUESTIONS FOR EACH CRISIS PHASE

Crisis phase	Questions leaders ask
Phase 1 – signal detection	• What are the organization's vulnerable areas? • How can the organization's vulnerable areas result in a crisis? • What situations and practices does the organization ignore that may lead to a crisis? • 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 2 – preparation/prevention	• 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 3 – containment/damage control	• 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 4 – business recovery	• What are the organization's short- and long-term recovery plans after the crisis? • What critical activities must leadership be engaged in to recover from the crisis? • What metrics will we use to evaluate the performance of our business recovery strategy? • How will leadership communicate the end results of the business recovery phase?
Phase 5 – learning and reflecting	• What did the organization learn from the crisis? • Did leadership reflect on past mistakes and behaviors? • Has the organization engaged in a change of behavior to prevent future crises? • Has the organization developed a memory to prevent future crises?

tencies) needed to holistically address business crises.

CRISIS LEADERSHIP: SIX COMPETENCIES FOR USING CRISES TO PROMOTE ORGANIZATIONAL CHANGE

Traditionally, firms in crisis adopt 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, or on legal matters. Moreover, in on our own research we found that damage control activities tend to be defensive or reactionary – 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 fully and completely. We've identified six core competencies for crisis leadership.

BUILDING A FOUNDATION OF TRUST

Without 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 cooperative intentions and actions. 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. 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. Take for example the widespread racial discrimination at Denny's Corp. restaurants, 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. More recently, Adelphia Communications betrayed employees, customers and shareholders when it was found to have made multi-billion dollar off-balance-sheet loans to the company founders, who were then also the firm's chief executive officer (CEO) and chief financial officer (CFO). Subsequent to the Securities and Exchange Commission (SEC) investigation becoming public, Adelphia's stock dropped 99.75 percent, representing a profound decline in public trust.

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; 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.

Building a foundation of trust also involves managing expectations. Explicitly communicating what it is you expect of others is imperative. Unspoken assumptions, inferences and other implicit communication open the door to misunderstandings and misperceptions, as well as inappropriate behavior and justification for that behavior.

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 institutional and individual investors who 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. The leadership of these crisis-ridden firms are not necessarily 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 which 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 and the neglect of other stakeholders. The now defunct accounting firm Arthur Andersen is a notable example of a firm with a pattern of risky behavior. Before its demise, Andersen had been investigated by the SEC and the Department of Justice (DOJ) for auditing improprieties. Included among the Arthur Andersen scandals were: (1) an obstruction of justice conviction in the Enron investigation; (2) a $7 million fine for overstating earnings for Waste Management and (3) a $110 settlement for inflating the earnings statement for Sunbeam Corp.

The challenge we pose to corporate leaders is to create a new, more expansive mindset. By taking a big-picture approach, leaders will see their organizations more completely and recognize and appreciate their responsibility and accountability to all stakeholders. In so doing, they will be forced to make decisions and enact behaviors that take into consideration multiple perspectives, thereby reducing the likelihood that crises will emerge.

In addition, 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, multiple groups, both within and outside the organization, were engaged in the process and empowered to create solutions.

IDENTIFYING THE (NOT SO) OBVIOUS FIRM VULNERABILITIES

With the new, expanded corporate mindset should also come a concerted *effort to identify the firm's vulnerabilities*. 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 our organizations. Consider, for example, the discriminatory behaviors promoted by the management team at Denny's 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.

When we fundamentally believe in the goodness of our intentions, it becomes extraordinarily difficult to consider that our actions are anything less than above-board. In fact, our mind can find ways to justify our deeds, so much so that we are genuinely disturbed when others interpret our behavior as unethical, immoral, or illegal.

In short, leaders must continually challenge themselves to consider not only the possibility that undesirable situations occur in their organizations, but also that they may have played a role in creating environments where bad things happen. At Denny's this began with management honestly acknowledging the firm's problems with discrimination. After doing so, 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 structure 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 involve 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.

Oftentimes, firm leaders who find themselves managing a crisis will solicit the advice of their corporate counsel. 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, or 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 himself or herself who has the broadest perspective on the organization, and thus is 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.

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. 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.

TAKE COURAGEOUS ACTION

In crisis leadership it is imperative that a leader *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. The tendency toward conservatism has been named ''threat rigidity'' by Barry Staw, Lance Sandelands, and Jane Dutton in their research examining how people respond to threats. 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.

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, at the end of the day, what has been produced? There is a difference between being busy and being productive. Oftentimes we are too busy to be productive.

While firefighters exist 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, figuratively speaking, are great – so much so that firms constantly managing in this reactionary mode are less competitive in the marketplace.

Keeping with our firefighting metaphor, we believe that in order to lead organizations for the future, leaders need to spend time in the firehouse – the place where firefighters go to reflect on and debrief the last fire, and prepare for the future. Firehouse time is essentially a time for learning. 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 who 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 who are toxic to the organization. Martha Stewart Living Omnimedia, Inc. (MSO) learned the value of firehouse time after its founder and CEO, Martha Stewart, was convicted for lying to investigators and conspiring with her stockbroker. With the temporary absence of its leader, the company had to reevaluate its dependency on a single person to markets its ideas, products and services. This resulted in a fundamental change in the administrative structure and re-branding its core competency.

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

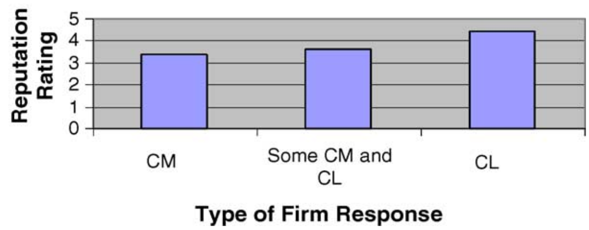
Although our approach to crisis leadership is fundamentally more than about managing specific crisis situations, these leadership skills are most evidently displayed during a crisis. In this way, it is much like a baseball game, in that fans most enjoy the ''mistakes'' on the field that result in hits and runs by one team and force 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, 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. 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 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 goes against conventional wisdom and oftentimes against legal counsel.

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. Fig. 1 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.

In summary, crisis management activities are an important component of overall crisis leadership. However, 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. Crisis leadership is a process. It is the ability to demonstrate the core set of behaviors identified here in a complex and dynamic environment, and to do so under a spotlight. The consequences of not building and using the repertoire of crisis leadership competencies can be significant, both personally for the leader and organizationally. So, although the crisis leadership competencies we have outlined are emerging, as scholars,

FIGURE 1 EFFECT OF CRISIS MANAGEMENT (CM) VERSUS CRISIS LEADERSHIP (CL) ON FIRM REPUTATION



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.

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