

# LEADERSHIP IN CRISIS MANAGEMENT

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*Abstract:* Most of the business models that are currently in use have not been designed with the high level of instability of the business environment and potential crises on mind. That is the reason why many traditional business models are altered or even completely changed in the times of crisis. In order to insulate the business from potential crisis, businesses incorporate sometimes rather sophisticated and costly risk management and crises management platforms and procedures in the overall business planning and performance hoping that would pay off in the times of crisis. What is not, however, easily foreseen in advance, is future behaviour of business leaders in some unknown potential crisis situation? The text debates the role of leadership in planning for crisis and managing crisis of a case in Croatia with a particular consideration of contextual dimensions of responsible leadership, stakeholder management and sustainability.

*Key words:* crisis management, leadership, sustainability, stakeholder management

## 1. Introduction

Business crises are, by definition, unexpected and they happen outside and beyond usual business routines. Despite the character of unexpectedness, the majority of crises do not happen suddenly but as a result of a series of warning events and incidents. Warning signs do not necessarily mean that every problem or incident will grow into a crisis, but in majority of cases, crises have indeed been preceded by warning signs. Some of the warning signs that could develop into crises are low employee satisfaction index, inadequate quality systems, consumer and customer complaints not handled to the satisfaction of the customers, exclusion of main stakeholders from discussions that involve their interests, inadequate procedures, activism, ignoring technical deficiencies for cost efficiency and so forth. (Fearn-Banks, K, 1996; Millar, D.P & Heath, R.L. 2004)

Planning for crises and updating crisis plans and validating their efficiency in crisis situations involves various forms of impact, probability, risk, mitigation, vulnerability assessments that assumingly raise company's preparedness for incidents and crisis situations. Companies that have crisis management incorporated in their overall strategy and managements routines, have crisis management teams accessible, crisis rooms

equipped and ready to be used, crisis custodians alerted and usually, once in a six months, routine updates of plans and trainings of involved management. (Augustine, N.R, 2000, Wetlauefer, S., 2000).

What is rarely, if ever, the issue planned for, debated or even considered a potential risk, is leader's behaviour. Since they are, in this way or the other, monitors, inspirers or sponsors of the overall crisis readiness process. It is assumed that leaders would not be part of the problem, but only its solution. Yet, in real life, it is sometimes just the opposite and the crises happen as a result of inadequate behaviour of leaders before the crisis, or, even more frequently, the crises are not resolved in the most efficient way because of inadequate leadership in the crises. Future behaviour of business leaders in some unknown potential crisis situation is rarely foreseen as a problem and often assumed as adequate. The role of leadership in planning for crisis and managing crisis is to be particularly considered within contextual dimensions of responsible leadership, stakeholder management and sustainability. The aim of this paper is to debate a potential problem and impact analysis of leader's role in pre-crisis and crisis situations on the bases of a real crisis case in a global company X in Croatia in 2006.

## 2. Efficient leadership in crisis

Business leader in a contemporary company is a captain of a ship that sails no calm waters. His or her ship sails in the “perfect storm” (Dotlich, D.L., Cairo, C., Rhinesmith, S.H., 2009) which is defined by complexity, diversity and insecurity. The successful and efficient leader, particularly the authentic leader, is expected to display not only integrity and sincerity but also courage and honesty (Avolio, B. J., & Gardner, W. L. (2005, Tafravlahović, 2011). On the conceptual level, the first two challenges, the complexity of business environment and the imperative of diversification strategy can be treated as rational (complexity) and emotional (diversification) areas of involvement.

The third issue, the matter of security, encompasses instincts and personal courage which are particularly important elements of the overall personality of a leader. What if a leader does not display authenticity, integrity and the overall courage and the lack of these is not, for obvious reasons, part of the crisis prevention and management planning practices in company? What if the traits of the leader are not adequate to ensure the proper management of the crisis in case despite the very well developed crisis management preparedness and routines in a company? What instruments could be used to ensure functioning of crisis management and adequate leadership to the maximum possible extent?

In the presented case of a company X in Croatia the need for some of the potentially useful elements of “leadership control” as part of future crisis management has been found. The case is described and analyzed and some general conclusions regarding the improvement of crisis management routines proposed.

### 3. 1. Offers and conditions

The company X belongs to the international Group operating on developed and emerging markets mainly in Europe and employing approximately 35.000 employees. The Croatian operation of the company at the time (2006) was managed relatively independently by the principles of “freedom within framework”. In the area of crisis management, however, the preparedness of company X for emergency situations was part of the global

emergency preparedness of the Group which involved very severe planning and regular validations of preparedness of local teams. At the time of the crisis Company X was considered to be the star in crisis management preparedness with very high evaluations by Group evaluators and external consultants who were constantly on the road show validating and assessing crisis preparedness in country operations.

It was therefore with extreme caution and very detailed plans that the management of company X engaged in preparing for potential crisis that was assumingly to be triggered by the restructuring which would involve outsourcing delivery as the first phase and then closing of one plant so that the operation would be left with only one production plant. The outsourcing of delivery, the first phase, ultimately involved laying off some hundred truck drivers and outsourcing the entire delivery staff and the belonging trucks fleet to the same drivers who would thus become self employed truck owners. The company planned to offer them to buy trucks they were using in the work under very convenient conditions and to also assist in the process of self-employment by hiring an agency to do that for the employees free of charge. In addition, they were to be offered three year contracts with possibility of extension so that they could continue working for the company X but also be free to earn extra in their free time.

### 3.2. Business model

Previous intensive management discussions led to conclusions that restructuring was needed because of the crisis times in which business was operating. The reasons for restructuring which were to be used also in communication with external and internal stakeholders were:

- Underutilisation of capacities
- High costs of human labour
- Severe effect on P&L
- Business strategy for 2008-2008 objectives:
- Return growth to the main product
- Continue profitable volume growth in additional product line
- Grow water business with key focus on still segment
- Further expand control over Route to Market in fragmented trade

- Deliver commercial excellence in fragmented trade and Key accounts
- Build customer-centric supply chain while optimizing cost and capital structure

- Minimize operating costs and financial working capital

These were reasons related to redefining the business model that was so far crucial operational model that had been used by the company X that was in FMCG industry but operated depending on the fleet that was the biggest fleet in the country and the drivers of which did not have much to deliver during off season period. In addition, because of the special shape of the country it was not cost efficient, actually, it was against common sense to keep the plant on the coast running when it was not working to the full capacity because it could not supply the distant parts of the country where the supply from other Group member countries was much cheaper and faster. So, the whole business model had to be destroyed and recreated and that was the leadership decision. Destruction and rebuilding of the business model is the first of nine rules of survival in the «perfect storm». (Dotlich, Cairo, Rhinesmith, 2009). The other eight rules are

- Focusing, simplifying and networking the organisation
- Building a Climate for Innovation
- Differentiating and Integrating the Markets
- Learning to lead everyone
- Becoming stakeholder savvy
- Redefining risk and uncertainty
- Balancing conflicting priorities
- Being clear about what leaders have the courage to stand for

With the time distance after the particular crisis analysed here and based on the known data about currently big corporate operational and subsequent culture change taking place in the Group to which the company X belongs, it can be concluded that the leader of the company X at the time had followed majority of these rule in planning for the crisis to come and in operating in «crisis times». In the days of the crisis in question here, which had its peak some ten days of the strike by truck drivers who were joined also by plant workers

in Zagreb and who had initially barricaded themselves in the plant preventing the management and some tenants to access the office, to mentioned just a few of some very media loved events that took place, the behaviour of the leader differed in some ways from that which could have been foreseen by his management.

### 3.3 Strike and barricades

The plan of the crisis team in the project of restructuring with the code name and two subprojects A (closure of plant) and subproject B (outsourcing delivery) had the tasks related mainly to communication as follows:

- Overall responsibility: draft the communication plan and ensure implementation and evaluation
- Identify issues that impact each audience/stakeholder affected by R. Each stakeholder must understand why R is taking place and how it affects their job, them, and CCBH
- Determine the variety of communication vehicles to be used
- Ensure that the feedback mechanism exists
- Build in measurements to assess the effectiveness of the communication
- The effectiveness of the communication and the execution of the operational elements of PR are interdependent. The communication cannot be effective if the operational side is sloppy and vice versa, therefore, All managers involved in operational side of R must be involved in internal communication
- CT decides on internal communicators and external spokespersons

Couple of hundreds of pages of detailed plans, Q&As, holding statements, communication guidelines, key messages for communication with each relevant stakeholder group, manager tracings and awareness sessions and simulations were prepared and a lot of managers' time and effort invested into what appeared to be the perfect crisis management preparedness. This was done under the leadership of a young CEO for whom that was the first great challenge after having taken the position and who had apparently decided not to be taken by surprise. Eventually he took his management and the entire work force by surprise.

The workers council and the trade unions representatives were informed of the general outline of the changes to come but were not involved in the creation of the package to be offered to the employees. The package, which in all its aspects was very favourable to the employees and showed a great deal of social sensitivity on the part of the leader and the management involved, was backed by the Group that was all the time fully on board with all the events. The offer, however, had not been previously discussed, let alone negotiated, with the representatives of employees, but was, in a way, served as a *fait accompli*.

Because they were not involved in the detailed creation of the package, the representatives of the employees felt excluded and the strike was planned to start. According to the law, it would be legal for employees to strike only after the official mediation which was to held at the court on Day D at a.m. would fail. However, the night before that, by the order of the leader of which members of crisis management were not aware, the whole fleet of some of hundred or so trucks was driven away from the parking in the warehouse premises by unknown persons. The official explanation was that the trucks were driven “for technical check up”. The leader had every right to do so because the trucks were the property of the company. However, since no such move was announced, the news spread fast and the drivers started to gather at the site protesting, feeling rather manipulated and betrayed, particularly because many had personal items in the trucks.

As the climate heated the idea popped up to go and conquer the plant which was on a different location and to barricade the yard so that the managers would have no access to the offices and the plant and the production would be prevented. It was then that some of the employees took out the badges “I am on strike” from their pockets and put them on the chest where they were visible, the mistake, all the employees would later pay, because at that time, it was not legal to start the strike. The strike was to start only the next day after the supposedly unsuccessful mediation at the court.

Finally, the workers barricaded themselves on the premises. The media were full of photos of employees behind the bars which gave the impression of them being locked in, while, actually, all the others were locked out.

The strike lasted ten days and since the company sued the employees for an illegal strike and had no problem to prove on the court via witnesses that strike had in fact started before it was legally possible, the company X won the case and the court ruled the strike to be illegal, at which point, the employees stopped the strike. The leader gathered them in the hall of the administrative building and explained that all the offers were still valid, that no employee would be punished or sued for the damages (because of the halt of production whereby frozen ingredients were not used and had to be thrown the company suffered severe financial losses) and that they would get all the support for setting up their own delivery businesses as promised. That was very well taken by the employees and ultimately helped in the healing process after the first phase of restructuring where usually there is a drop of moral in the employees that stay in the company.

### 3.4 Expecting the unexpected

One thing that happened to the crisis management team of the company X, the star of the group, perfectly trained, validated and planning for this particular crisis with sophisticated tools and expertise in crisis management, was the one thing that they did not plan for. What happened and what was a trigger for future events that led to an absurd situation that they were shut out of the official plant and offices was that their leader took a major decision on his own not and that this decision was not in any of the many scenarios planned. How did he decide this in the very last moment? What made him change his mind and stray away from the agreed behaviour in the crisis?

Nobody can answer that for sure but the leader himself. It was probably not very well thought but in all ways brave and also risky decision to order that the trucks be driven away into an unknown direction, which then pissed the truck drivers so much that they made moves also not very well thought off which ultimately led to the crisis climax but also helped the company to win the case in the court and thus resolve the problem.

The crisis management team did not have this planned simply because the leader’s movements “outside the box” are not planned as a variable in crisis management and

resolution scenarios. One of the most known examples of “expect the unexpected” behaviour of the leader happened in the known “Tylenol case” in Johnson Johnson in US in 1982 when in the first Tylenol crisis (there was in fact also the second) seven people were poisoned and died after having consumed the known painkiller Tylenol. The then leader of Tylenol, previously not known in the public, decided just the opposite of what was then advised to him by company lawyers who pleaded no comment until the investigation clarifies what had happened. He did just the opposite, went public using all the channels possible and engaged in the biggest ever recall in a pharmaceutical company, which, ultimately, caused big damages on the short term, but on the long term cemented the company positive reputation and significantly increased consumer loyalty. That stakeholders appreciate sincerity and reward it with trust was one of a couple of most learned lessons of Tylenol case.

This particular case of Company X in Croatia shows that leader behaviours probably should be planned, or, that leaders should be given special support when sensitized to possible outcome of the crisis and psychological skills needed in handling the crisis. Not all was well after this restructuring in the company X, the employee moral and the corresponding employee engagement index plunged very low when compared with similar operations within the group and it took years and very creative and dedicated human resources investment and efforts by the same young leader to have it on a rise again.

Leaders, as this case shows are expected to manage crisis and understanding of the crisis in the short term and long term interest of the company which might sometime seem like a mission impossible but looks more manageable when translated into lessons for effective leaders in crisis management (Ulmer, Sellnow, Seger, 2007):

- Effective leadership is effective to overcoming the crisis
- Leaders should be visible during the crisis
- Leaders should work to develop a positive company reputation during normal times to build a reservoir of good will
- Leaders should be open and honest following a crisis
- Leaders who manage crises successfully may create opportunities for renewal

- Leaders should cooperate with stakeholders during a crisis and should work to build a consensus
- Poor leadership can make a crisis much worse
- Leaders must adapt their leadership style and contingencies during crises
- A virtuous response to a crisis by the organization's leaders may be the most effective in generating support and renewal
- Leaders have specific communication obligations for managing and learning from crises

#### 4. Conclusion

Leadership in times of crisis is particularly demanding. Although companies cannot fully plan for crises they can, and many do, use numerous scientifically based management processes to install crisis management routines into operations and to include potential risk and vulnerability assessments into strategy debates and planning process. In these processes roles of leaders need to be given special emphasis and consideration for various reasons, the renewal after crisis as an opportunity and the revival of company's reputation being one of the most important, yet not the only reasons. Usually, the leader is not the member of crisis management team but a decision maker who only makes the decisions based on assessment and proposals of the team. Yet, he or she, nevertheless, remains the most important individual in the times of crises, very much exposed to the global exchange of information in new media and social networks that the company cannot control. Being in the spotlight, the leader cannot be a solo player. He or she is not only the most responsible manager on the board of a company in crisis, he or she is very often the most visible symbol of the company with all the long term implications this has on the future survival of the company. For all these reasons, as the case study presented here has also shown, crisis management should include effective crisis leadership foreseen in various aspects so that the crisis ultimately could be turned into an additional opportunity.

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