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Ready, Set, Crisis! For Effective Leaders, Preparation = Reputation

Helio Fred Garcia

More often than not, business leaders still see crisis preparation initiatives as a nuisance, a distraction from the "business as usual" tasks of running the organization. Even with good intentions and numerous examples of the risks of being unprepared, serious crisis planning is perpetually postponed. From CEOs to middle managers, the financial and time costs of effective preparation are questioned. Helio Fred Garcia, widely regarded as a leading expert in crisis management and crisis communication, visited the Wharton School as an Omnicom Communications speaker on February 22, 2006, and his fresh perspective on the benefits of effective leadership response to came out in an interview for the Wharton Leadership Digest conducted by Wharton MBA student Romi D. Garvey.

WLD: Let's talk about effective crisis response in general. You suggested it is a competitive advantage. How so?

HFG: One thing that's absolutely clear is that ineffective crisis response creates significant competitive disadvantage. Employees can be less productive and less loyal. Customers can choose not to buy the company's product, investors can dull the company's stock, regulators can investigate or otherwise cause disruption to a company. And management, because it is scrambling for what to do, gets distracted and loses its focus. Wall Street Journal reporter Ron Alsop, who wrote the book *The 18 Immutable Laws of Corporate Reputation*, used the phrase "flailing around and looking helpless aren't inspiring to your stakeholders."

When a company is significantly in crisis, competitors see the company in stress and become predators. They can pick off employees, customers, and market share, and they can agitate a marketplace for regulatory

investigation or otherwise throw the company off balance. All of that can be avoided by effective crisis planning and management.

Look at McDonald's. Within two and one half hours of announcing the death of its CEO, on a day when all its restaurant operators happened to be gathered at a convention, [McDonald's was able] to name a new CEO in a way that gave its most critical stakeholders, the operators of the restaurants, confidence that the company would go on. McDonald's had a succession plan already in place. They simply implemented it earlier than they thought they would. That's a good argument to have a succession plan. It's also a good demonstration of how chance favors the prepared mind. What could have been a huge distraction for the organization became an event that was managed with a focus on the future, and not on "Oh my goodness, [what now?]"

We saw a similar effective crisis response with Boeing Corporation. [Note: CEO Harry Stonecipher was hired after the previous CEO, Phil Condit, was forced to leave because of two years of Boeing's involvement in recruiting scandals. Harry Stonecipher authored and implemented a revised Code of Conduct.] When it was brought to the board's attention that CEO Harry Stonecipher had himself violated the code by having inappropriate relations with a female employee, the board investigated promptly, determined it was true, and fired Harry Stonecipher. The firing and the announcement of the firing took place in such a short timeframe, the company was able to move on with minimal distraction and harm to its reputation. That meant the adversaries couldn't jump in and say, "Boeing still hasn't gotten it." The Wall Street Journal praised Boeing for its decisive response and for honoring its code, thereby removing the doubt competitors had before cast on Boeing.

Now fascinating, look at what happened in the last six weeks. I was teaching a course at NYU when it was found that the CEO of RadioShack lied on his resume about his qualifications. On the same day that RadioShack announced very poor financial results, the board issued a statement that said, "We have been made aware of the dishonesty on the part of the CEO, and we have asked for advice from a law firm on what we ought to do." And all of my students sort of looked at each other and said, "Well, it's absolutely clear what they have to do. Their CEO lied to them about his credentials. He has to be fired." It took four days, which is arguably shorter than it could have been, but four days longer than it should have been, for RadioShack's board to fire the CEO. If they had demanded the resignation on day one, there wouldn't have been four days of negative news coverage about not only the ethical lapses at the top of RadioShack but also about RadioShack's operating and financial problems.

WLD: RadioShack had the examples of McDonald's and Boeing before it. Why are Boeing responses so uncommon, and RadioShack responses so prevalent?

HFG: Ron Alsop in *The 18 Immutable Laws of Corporate Reputation* says that too often companies become complacent. They begin to feel almost invincible. Their financial performance is strong, and they fall into the trap of believing they have little to worry about. They're blindsided by a crisis, and they don't have a response plan in place.

That clearly was the case, earlier at Boeing, that led to the departure of then-CEO Phil Condit. It clearly was

the case in the Exxon-Valdez disaster. But if you look out beyond the corporate world, the biggest example of the effect of inattentive crisis response is on President Bush's ability to govern. If you look at President Bush pre-Katrina, he was riding pretty high. The Katrina situation, where the president seemed disengaged, uninterested, and uninformed, changed the perception of the president. President Bush saw his own popularity plummet in the aftermath of Katrina, and for the first time ever, his own party [questioned him] when he nominated Harriet Miers [to the U.S. Supreme Court]. It wasn't the Democrats that prevented Harriet Miers' appointment. It was his own state, and that wounded the president and his ability to govern. In subsequent attempts to govern the president has faced similar issues.

[The need for effective leadership response to crisis] applies to any organization that operates based on demand for its products or the demands of its stakeholders, and that includes for-profit, not-for-profit, government, and others. This is a leadership challenge. Leaders often resent the crisis and think of it as an interruption to their stewardship, and when they think of it that way, they're putting themselves at a disadvantage. The crisis is actually a critical test of their stewardship. Leaders are judged by how they deal with their most pressing challenges, and the crisis is the most pressing challenge.

WLD: With such recent focus on corporate governance, have you seen an expectation among investors and the public that a crisis response plan be more transparent?

HFG: I know that boards of directors are demanding to see the plans. I'm in the business of advising leaders and corporations to develop and test crises plans, and to create an infrastructure to handle events before they become crises, and those types of services are hugely in demand, especially as boards begin to sense their own personal liability. It isn't necessarily that the investor wants to see the crisis plan. The investor wants to see the crisis handled well. It's the board's and the CEO's duty to ensure that there is the structure in place to deal promptly with routine operational setbacks, because we're in an environment where routine operational setbacks, if not handled quickly and forcefully, are interpreted by stakeholders as integrity lapses. There is in any crisis situation a first mover advantage that defines the situation. If a corporation is able to demonstrate that an operational setback is exactly that, it declines adversaries the opportunity to interpret the crisis as they wish.

So there is a growing sensitivity at the top of big corporations of the need for there to be an executive in place for effective crisis preparedness. Here's my checklist for CEOs or other management officials or teams to better understand whether the organization is prepared to deal with a crisis:

Step 1: Have a clear sense of what constitutes a crisis, and know how to mobilize energy and resources quickly:

- Develop an early warning mechanism/rapid response capability.
- Designate a senior executive as responsible for crisis preparedness and response. It has to be a single person, not a group of multiple functions.
- Make this executive accountable and provide sufficient resources to conduct a thorough analysis of vulnerabilities, crisis response strategies, and crisis implementation.
- Pre-authorize this executive to take initial response steps without going through usual corporate approval processes. This is perhaps the most important part. Because time is so critical in a crisis, if

you use your usual processes with your usual velocity, you lose the march on your adversaries.

Step 2: Test the system with war-games, table top exercises, and other processes that challenge leaders to make tough decisions and act quickly:

- Remember that the best plan won't help if executives don't know what to do.

Step 3: Recognize when business as usual needs to be suspended. A quick test:

- Are the constituencies who matter expecting you to take prompt action?
- Will delay in taking prompt action provide an opening to your adversaries or others to define your involvement negatively?

Step 4: Control the agenda: don't let the media, adversaries or the rumor mill define your situation.

Step 5: Keep in mind the Golden Hour of crisis response: incremental delays cause greater-than-incremental harm to reputation.

Step 6: Develop messages and tactics with a goal in mind: how do you want your key stakeholders to think and feel, and what do you want them to know and do?

Step 7: Assure both self-awareness and situational awareness:

- Coordinate all functions of the crisis response with frequent meetings/conference calls.
- Correct mistakes early.
- Understand what your stakeholders, adversaries, the media and others are saying about you.
- Keep your focus on the goal: influencing stakeholders. Decisions become clear when you keep stakeholders in mind.

WLD: So far we've assumed the CEO values putting money and time into preparedness. Let's suppose that's not the case. What are some financial motivators that people in an organization can use to convince their leadership team to put resources toward these checklist behaviors?

HFG: The best one is to be able to point to examples of organizations that failed in their duty to protect shareholder value, and ask, "Can we learn from that, and not have to go down that path?" I work for a number of pharmaceutical companies. I don't work for Merck. There isn't a single company that I work for that hasn't asked, "Are we certain that we know how to not get into the same situation that Merck got in?" They're affirmatively asking the question in ways that I didn't hear five years ago. I'm now hearing from CEOs and others, "What can we learn from other similarly situated companies? And by the way, it doesn't have to be a company in the same industry, just a company facing the same challenge."

The other thing that many have found persuasive is some of the academic research that points to different market capitalization and the effect on stock price between well-managed crises and poorly-managed crises. Look, for example, at the effect of how the Marsh crisis was mishandled on the Marsh stock price. Marsh's competitive advantage and ability to attract talent suffered significantly. Jeffrey Greenberg, the CEO, waited way too long before leaving. Elliot Spitzer made it clear early in the negotiations that Greenberg as the CEO was a deal-breaker for him, and there had to be change. Greenberg ultimately left because the board made him. Look at what happened to the stock price because they didn't handle the

crisis sooner. Look at their sister company, Putnam. Putnam saw a huge decline in assets under management because it was seen as not fully responsive when the market timing scandal broke. And although the market timing scandal affected negatively multiple mutual fund families, it seemed to have affected Putnam particularly. An Oxford University study found that companies that mishandled crises ended the year after the crisis with stock prices down an average of 15 percent, while companies with an effective crisis response closed the year after the crisis with prices up an average of 7 percent. The difference between effective and ineffective crisis response was, on average, 22 percent.[2]

Note: Helio Fred Garcia is the president and founder of the crisis management firm Logos Consulting Group, and is the executive director of the Logos Institute for Crisis Management & Executive Leadership. He is adjunct professor of management at New York University, where he teaches crisis management in the Executive MBA program of the Stern School of Business. He is also the author of "Effective leadership response to crisis," Strategy & Leadership (2006), and co-author with John Doorley of *Reputation Management: The Key to Successful Public Relations and Corporate Communication* (to be published in June 2006 by Routledge, Taylor & Francis Group). The study referenced in the last paragraph is by Rory F. Knight and Deborah J. Petty, *The Impact of Catastrophes on Shareholder Value: A Research Report Sponsored by Sedgwick Group* (The Oxford Executive Research Briefings, Templeton College, Oxford, 1997). Romi Garvey can be reached at romi@wharton.upenn.edu.

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