

Leadership and Crisis Management

Section 71: October 3-4, 10-11

Section 72: November 7-8, 14-15

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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 a close connection to the company's position in the marketplace as well as 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

You are required to obtain the book *Reputation Rules: Strategies for Building Your Company's Most Valuable Asset*. New York: McGraw-Hill (2011) and the *Course Reader* which contains the remainder of the readings and course materials. The book was specifically written for this class and contains various frameworks and case examples. The Course Reader and book will be available at the Northwestern University bookstore.

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 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 exercise 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

Section 71: 6-7:30pm on Friday, October 3

Section 72: 6-7:30pm on Friday, November 7

Crisis Leadership Basics

To develop successful crisis management strategies, managers need to be able to evaluate the crisis potential of their business. A key component of successfully predicting whether a business decision may have adverse consequences is to understand the motivations of stakeholders and their capacity for action. I will also give a brief overview of the class content and will discuss organizational and logistical issues.

Reading: *Reputation Rules*, Preface and Introduction

Case: CR-1 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.

Please review two articles that provide some background information on AIG until the early part of March. 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 2

Section 71: 7:30-9pm on Friday, October 3

Section 72: 7:30-9pm on Friday, November 7

Managing Perception and Product Crises

There is no crisis without the news media. The focus of this session is the impact of the news media on business strategies and their public perception, as well as how managers

can identify the key business assets affected by the crisis and integrate crisis management into their market and non-market strategy.

Reading: *Reputation Rules*, Chapter 1 & 2
Case: CR-2 Toyota

Session 3

Section 71: 9-10:30am on Saturday, October 4
Section 72: 9-10:30am on Saturday, November 8

Crisis Simulation A – Part 1

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 4

Section 71: 10:30am-noon on Saturday, October 4
Section 72: 10:30am-noon on Saturday, November 8

Crisis Simulation A – Part 2

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 5

Section 71: 1-2:30pm on Saturday, October 4
Section 72: 1-2:30pm on Saturday, November 8

Proactive Stakeholder and Issue Management

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*, Chapter 3 & 4
Case: None

Session 6

Section 71: 2:30-4pm on Saturday, October 4

Section 72: 2:30-4pm on Saturday, November 8

Political and Regulatory Crises

Reputational crises frequently lead to regulatory and political crises. All economies are shaped by formal and informal norms and regulations that structure market competition. These “rules of the game” vary significantly across countries. These rules, and in many cases, their enforcement, 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.

Reading: *Reputation Rules*, Chapter 6 & 7

Case: CR-3 Thalidomide (A)

Crisis Simulation B will be distributed at the end of class

Session 7

Section 71: 6-7:30pm on Friday, October 10

Section 72: 6-7:30pm on Friday, November 14

Crisis Simulation B – Part 1

This session will simulate a second crisis management exercise in a global business context.

Reading: *Reputation Rules*, Chapter 8

Case: MITI (A)

Session 8

Section 71: 7:30-9pm on Friday, October 10

Section 72: 7:30-9pm on Friday, November 14

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

Case: To be distributed

Session 9

Section 71: 9-10:30am on Saturday, October 11

Section 72: 9-10:30am on Saturday, November 15

Values and Culture

Reading: *Reputation Rules*, Chapter 9

Case: None

Session 10

Section 71: 10:30am-noon on Saturday, October 11

Section 72: 10:30am-noon on Saturday, November 15

Final Exam