NEW DIRECTIONS IN BUSINESS

# Overdrive

## Managing in Crisis-Filled Times

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*To our families,*
*who provide purpose,*
*support,*
*and a fair amount of crisis.*

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# PREFACE

Some crises strike with warning and with predictable timing. Others strike suddenly and unexpectedly. Either way, crisis turns an ordinary day at the office into an annoying day at best, but at its worst, crisis is a corporate nightmare.

On just such an ordinary day, Lucja Szymczakowska happily set up for business outside the Skydome in Toronto. For three years she had supported herself, her sister, and three children by selling hot dogs from her own vending cart. Then, suddenly and without notice, five new hot dog carts showed up to compete in the already overcrowded market. Lucja's nightmare had just begun, however, for the new carts were owned and operated by McDonald's, *the* McDonald's.

That same day, Edward Schmidt, president and chief executive officer of Alpha Solarco Inc., blithely arrived at his office only to hear a political announcement that threatened the very existence of his Cincinnati-based company. In light of China's sales of missiles and other technology to Pakistan, the United States slapped trade sanctions on China, which banned the transfer of certain technologies with potential military applications. Since Alpha Solarco had been deriving 75 percent of its total sales from exports to China, the government's ban posed real problems.

Much like Szymczakowska and Schmidt, executives of the nation's various cellular telephone companies strolled into their offices one day only to learn that ATT and McCaw Cellular Communications had merged in pursuit of the lucrative wireless communication market. Like the five new McDonald's carts, the merger poses more than a minor challenge to future profits for the cellular phone companies because behemoth ATT plans to sink over $20 billion into acquisitions in a quest to dominate the cellular market. As a result, some cellular companies will have gone out of business before this book goes to press.

These three examples of crises (and at least 18 others) recently appeared in a *single* edition of *The Wall Street Journal.* Friday, August 27th, was a day like any other day, just an ordinary business day in America, filled with crisis. In fact, crises have become so pervasive that a survey of executives conducted by the American Management Association indicates that they spend well over 70 percent of their time each day "putting out fires."

But the sheer volume of crisis alone doesn't justify another book on corporate problem solving. What fascinates us is the relationship between crisis, which is so prevalent in modern organizations, and vision, which is so important to organizational success.

It is a relationship of seeming opposites. Vision, on one hand, is a creative, inventive, and insightful process, while crisis, on the other hand, is chaotic and uncontrolled, at best merely disruptive, but often extremely destructive to organizations and careers. So how can the two possible coexist? The answer lies in a stark and simple, yet extremely revealing, piece of common sense: *Every crisis is a violation of vision.*

Just as the concept of *light* helps us define and comprehend the meaning of *darkness, fast* contrasts with *slow, long-term* thinking puts *short-term* thinking in perspective, so also does the mental picture of things going *right* illuminate all that is going *wrong*. In other words, only by constantly contrasting how things *should be* with how things really *are* does an organization feel flush with success or confronted with crisis.

If we consider vision and subsequent strategy as a collection and schedule of organization *should bes*, then any falling short of the mark is a crisis of some degree. We should be number two in our market; a crisis is being number four. We should be first in the stores with new products; a crisis is getting beaten to the shelves by the competition. We should be 65 percent of plan by August 10th; a crisis is when net profit is under plan by 17 percent. We should be operating with 10,000 fewer employees; a crisis is the inability to downsize effectively. We should be shipping 100 cases by the end of the shift; a crisis is when the line stalls, forcing a delay. We should be submitting our proposal by next Friday; a crisis occurs when the study promised by the New York office by 5 P.M. Thursday is not faxed as promised. In countless day-to-day examples such as these, common sense suggests that crisis is when life does not live up to plan.

The intertwined relationship between vision and crisis begs an important question. How can an organization or executive hope to develop an effective and functional vision without being equally effective at the management of crisis? If, as we believe, every crisis is a violation of vision, then *every crisis solution demands, to some extent, a modification of vision.*

Think of vision as if it were a masterpiece being painted in the middle of a construction site. The circumstance dictates that the artist must not only conceive and create the delicate blend of form and color, but, simultaneously, must also paint over the accumulation of smudges, splatters, and spills that assault the masterpiece from the surrounding activity. It is even conceivable that the artist might have to start from scratch if the damage is too severe. Using this analogy, it might be argued that some Fortune 500 companies are in need of a new canvas, not merely a touch-up here and there.

The simultaneous need to create and then modify vision suggests a demand for executives that are visionary but also hard-nosed practical crisis managers. In reality, an organization's vision is assaulted by crisis from the moment of inception, whether the crisis is as common as the need to re-engineer or as unthinkable as the next environmentally lethal oil spill. Consequently, we are alarmed that while so much is ventured about vision, so little is committed to understanding the dynamics of crisis. Unfortunately for companies like Exxon, whose vision dominates its industry, its seeming lack of effective crisis management skill during the spill of the *Exxon Valdez* cost its shareholders added billions.

To further appreciate why developing a more effective crisis management capacity is vital to a leader's success, consider briefly four crisis concepts.

*First, the more ambitious a vision, the more frequent the crisis.* Even the most basic organization pursues a vision, but not all visions are basic. As visions grow more complex, the potential for crisis also escalates. Think of the beverage stand at the local elementary school carnival. The simple structure of the vision, to sell drinks for a quarter, leaves little room for things to go wrong. You can run out of drinks, cups, ice, and maybe change, but that's it. Coca-Cola, on the other hand, also shares a vision of selling beverages. But the complexity of Coke's vision invites potential problems not found at the school carnival, such as varying national health codes, environmental regulation, patent infringement, and even small wars.

The linkage between the complexity of a vision and the frequency of crisis suggests that an organization with a visionary leader, but one that cannot effectively manage a multitude of crises, is in deep trouble. The very skill of the leader in crafting a complex vision simultaneously ensures the constant flow of crisis that can potentially bring the vision down, *unless* the leader is equally skilled in crisis management.

*Second, how you go about solving a crisis has become even more important than any specific solution, no matter how effective it may be.* In a very real way, current methods of crisis management leave a legacy that surrounds every organization, for better and for worse, long after the actual crisis has passed. This reality drives our attempt to probe more deeply into the anatomy of crisis and to propose a radically new methodology that will prepare leaders to counter the inevitable crises, large and small, that affect organizations every day. Consider one deceptively simple, yet revealing, example.

Lake Powell was created by damming up the Colorado River near the Utah-Arizona border. The resulting coastline stretches from the Wahweep Marina in Arizona to the Bullfrog Marina in Utah, a distance of 182 miles, making Lake Powell more of an inland ocean than a land-locked reservoir. Given its size, severe storms can whip up winds exceeding 50 knots and waves cresting over 10 feet. One such storm tore loose two of the four anchors securing our 74-foot boat to the beach. During the crisis, 16 passengers, including 6 children, watched as we struggled to secure the two broken anchor lines. What they saw was not merely the mechanical efforts of splicing line and resetting anchors; rather, they observed the whole dynamics of the process, not out of detached curiosity, but for some sign that safety would be regained. Should they remain calm, or should they panic? Were the efforts to solve the problem deliberate or random? Did we focus all our effort on solutions, or were we wasting time placing blame on those who set the anchors? The answers to these sorts of questions would linger, for better or for worse, long after the actual crisis had passed.

If you extend this example to the corporate world, you can better appreciate our point. While an organization wrestles with crisis, its shareholders, directors, and employees watch, and, more important, remember. Their impressions determine if a particular leader and management team is one that they really want at the helm when the next storm blows.

*Third, the best and the brightest are paid to manage crisis.* During a time when stockholders berate seemingly obscene executive salaries, the competent crisis manager is a bargain. Whether the crisis is a major league players' strike or a major chemical spill, the impact of incompetence, or even mediocrity, begs for strong strategy and a skilled touch when the heat is on. So it is no surprise that the daily routine of corporate leadership is hardly routine. Rather, the best are paid in anticipation of the next organizational flare-up or meltdown. Ironically, this suggests that a promising career headed for the top is simultaneously headed for crisis-filled times.

*Fourth, no one appreciates your crisis more than your competition.* Let's face it. When IBM fell from grace, you could hear the cheers from the smallest Silicon Valley techno-think tank to the Tokyo boardroom of Toshiba. Every micro and macro crisis that Big Blue weathers is a potential weak link in their market domination of the computer industry where business is war and no prisoners are taken, no matter how grand their corporate legacy.

During crisis, particularly a major crisis, an organization has no friends, only varying degrees of enemies. From the moment the *Exxon Valdez* spilled its first drop of oil to the legal confrontations five years later, Exxon has stood alone. Its only supposed friends are the legion of lawyers and specialists whose short-term loyalty has been bought by millions of dollars in fees. And always lurking is the competition, whose best interests are served by your worst crisis nightmare. Circumstances such as these demand that crisis bring out the best in leadership and management, not the worst.

The relationship between crisis and vision, and the impact that crisis has on the success of an organization, prompts a career wake-up call for all leaders and those that aspire to leadership. This is because crisis has become a permanent player in the game of management for all companies, not just for the elite of the Fortune 500, but for the corner hot dog stand as well. On an ordinary day, in union shops, assembly lines, distribution centers, and plush boardrooms across the country, executives must match wits to defend their vision against challenges of all types and all sizes. If they manage poorly, they jeopardize their company's very existence. If they manage well, they can conquer even the most serious crisis.

In the battle between McDonald's and Lucja Szymczakowska, Szymczakowska did not have the benefit of a Harvard M.B.A. or years of formal career training. But her crisis management was so common-sense street-smart, her resolve so fierce, that George Cohon, chairman of McDonald's Canadian unit, respectfully and graciously conceded, "We've got five hot dog carts we'd like to sell."

# Contents

# PART ONE

# Crisis Myths and Crisis Realities

Five widely accepted myths of crisis management, based on partial or distorted truths, influence how today's executives approach crisis. In order to fully understand the dangers associated with these five myths, you must think about these factors: first, the kernel of truth each myth contains; second, the way the myth distorts reality; and third, the truth that dispels the myth.

## Myth Number One: Crisis Results from Someone's Mistake

Certainly, human error causes or contributes to many crises, but other factors, such as mutual disasters, changing technology, shifting consumer trends, and organizational aging play ever greater roles. This myth propels executives to seek scapegoats or conduct witch hunts to identify a target that can receive full blame for the crisis. Of course, you may slaughter your scapegoat or burn your witch at the stake and still find yourself up to your neck in crisis.

## Myth Number Two: A Lot of Crisis in an Organization Indicates an Inability to Manage Crisis Effectively

Obviously, a new crisis will camp out on the doorstep of an organization that handles an old crisis poorly, because one unresolved crisis almost automatically leads to the next. However, our own observations lead us to conclude that the volume of crisis stems more from management's vision than from its inability. Ironically, if management sets low objectives, then less can go wrong. Therefore, the best organizations, those with the most aggressive visions, tend to encounter the most crisis.

When you embrace a loftier vision, three dynamics come into play: your vision becomes more dependent on the cooperation of others, competition increases as you go up against the best and the brightest, and timing becomes more crucial. Therefore, this myth stimulates executives to set their sights low, and keeps their organizations off the cutting edge in fear that the increased crisis will cost too much.

## Myth Number Three: Crisis Always Destroys

While every crisis does disrupt an organization, not every crisis destroys it. In fact, more often than not, crisis can regenerate an organization as it invigorates management to *focus* on what really counts, to *innovate* solutions to problems and to *reevaluate* everything the culture believes and does. In reality, this myth itself inflicts the real destruction because it impels management to avoid crisis as a means of preserving policies and procedures that may have long since ceased to be productive.

## Myth Number Four: Contingency Plans Equal Crisis Management

While every organization must anticipate and prepare itself for crisis, most contingency plans amount to little more than wishful thinking because most such plans assume that when crisis strikes, it will follow predictable paths. If a crisis is truly predictable, it isn't a crisis at all. Genuine crisis management allows you to deal with crisis *wherever* and *however* it surprises you. This math keeps management in an imaginary comfort zone where it can be blindsided and destroyed by even the smallest unthinkable crisis.

## Myth Number Five: Lone Wolves Resolve Crises Best

The best crisis management involves team play. It works best when a motivated group addresses a challenge with focus, unity, and cooperation, and nothing damages *organizational* crisis management more than the lone wolf, the solo player who struts into the situation as if taking center stage in a one-player show. Yet, this sort of act almost always mesmerizes the business press whose reviews make good stories, even when the performance fails. The press, as much as anything, fosters the myth that lone wolves, not teams, solve crisis best.

Accepting this myth ignores the backstage workers and the supporting cast of actors and actresses that actually do the dirty work of confronting crisis. Admittedly, there are individuals that perform exceptionally well under crisis conditions. In fact, some exploits are legendary. But for most organizations whose CEO is a leader, not a legend, the myth is deadly and needs debunking.