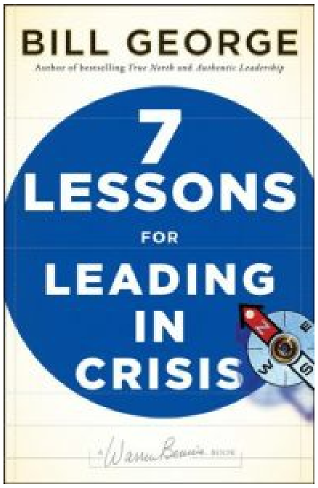

Book Seven Lessons for Leading in Crisis

Bill George
Jossey-Bass, 2009
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Recommendation

Business legend Bill George learned about corporate crisis firsthand as a novice manager in his 20s. His timing was impeccable: The day before he began a new job as Litton Industries' assistant general manager for microwave ovens, the U.S. surgeon general announced that microwave ovens posed a potential health risk. When George arrived at Litton's Minneapolis office for his first day on the job, the place was in bedlam. If the Food and Drug Administration (FDA) had ordered Litton to take its only product off the market, the company would have gone under – and George would have been out of a job. For nine months, he worked around the clock with Litton's engineers to make sure its microwave ovens could meet tough new FDA standards. What a welcome to the business big leagues! In his book on corporate crises, George says calamities either make or break executives. Litton's microwave crisis did not break George. He went on to a storied career as a respected CEO and a professor at Harvard's School of Business. *BooksInShort* recommends his wise, savvy book to CEOs and other senior executives who will derive valuable lessons from its strategies and its many fascinating case studies.

Take-Aways

- A crisis will severely test a company's chief executive officer and its other leaders.
- Some CEOs are able to weather such storms; others flounder.
- If you act boldly, a crisis can be your finest hour. Follow seven lessons.
- First, don't deny the hard reality of the crisis your firm faces.
- Second, don't try to solve the crisis alone.
- Third, discover the true causes of the crisis.
- Fourth, don't expect that short-term or halfway measures will resolve the crisis.
- Fifth, use the crisis as a time to reorganize your business and make it better.
- Sixth, be careful how you communicate during a crisis. Mistakes will matter.
- Seventh, apply seven additional strategies to exploit a crisis in order to set a new strategic direction and define your organization.

Summary

Chinese Curse: "May You Live in an Important Age"

Crises uniquely test executives. A crisis will ruin some CEOs and elevate others. The leadership skill you will need during a crisis is not something you can learn in an M.B.A. program. Rather, you will discover it as the crisis develops. If you weather the storm, your leadership ability will shine bright. If you make mistakes, but keep your company afloat, you will still be able to learn valuable lessons. Thus, you will be better prepared for future emergencies.

"Lesson 1: Face Reality"

In 1991, Salomon Brothers was in big trouble. It faced possible criminal prosecution for "submitting false bids" to the U.S. Treasury. The firm's senior managers refused to accept the dangerous reality of the situation. However, Warren Buffett, Salomon's major shareholder, quickly assumed control of the company and told the top executives to leave the firm. Lawyers and public relations professionals counseled the company not to "provide complete transparency" to the U.S. government. Buffett did the exact opposite, ordering Salomon to be fully transparent, even if the government used information it provided to prosecute the firm.

> "A crisis provides a unique opportunity to create transformative change in your organization."

Buffett could see that the U.S. government surely would bring criminal indictments against Salomon if its leaders kept stonewalling. This would have made it impossible for the firm to bid during government auctions, which would have pushed the company into bankruptcy. Only by putting his reputation on the line could Buffett prevent such a disastrous chain of events. Without his leadership during Salomon's crisis, the firm certainly would have gone down.

> "In the glare of the lights, your ability to stay true to your values is put to the test. You can make or break your reputation in an instant."

Denial is a bigger career killer than incompetence. Crises often start small. At first, leaders can easily avoid facing a looming problem. They assure themselves that nothing major is happening and that a "quick fix" will work. Soon, minor issues inflate into major ones. Leaders must realize that crises do not magically heal. Ignoring a developing storm will only make a bad situation more difficult to rectify later. Accept reality. Acknowledge your role in contributing to the crisis.

"Lesson 2: Don't Be Atlas; Get the World off Your Shoulders"

As a CEO, are you supposed to support the whole world on your shoulders in times of trouble? You are not. Turn to your colleagues for assistance. Learn from Morgan Stanley CEO Philip Purcell. When his firm faced numerous problems in 2004, Purcell could have spent his time on the trading floor getting a fix on things from his traders. He could have met with his executives to work out solutions. Instead, he sequestered himself in his office. That is not leadership. Former Morgan Stanley executives united to influence the board to fire Purcell. John Mack took over, put new leaders in place and got things rolling again. The company survived its crisis of confidence.

> "Like being in a war, crises test you to your limits because the outcome is rarely predictable."

Why do some CEOs retreat during crises? Some may worry about failing and losing prestige, but walling yourself off helps no one. During an emergency, turn to trusted colleagues, friends and relatives. In advance, make sure you have a support team in place. If you can, include a mentor. Relying on others in times of trouble does not demonstrate weakness. Instead, it lets you connect with people in a meaningful way that motivates them. When you are open and available, your team can rally around you to develop solutions to your organization's problems.

"Lesson 3: Dig Deep for the Root Cause"

In 1982, someone tampered with Tylenol capsules and three people died from cyanide poisoning. Jim Burke, the CEO of manufacturer Johnson & Johnson, immediately recalled all the Tylenol in distribution. His calming presence on the nightly news reassured the public. Within weeks, his company introduced "tamper-evident packaging." Soon, it was selling as much Tylenol as ever. However, in 1986, a young woman named Diane Elsroth also died after using poisoned Tylenol capsules. Burke again pulled all Tylenol from the shelves. This time, at a cost of some $150 million, the company reintroduced the product with a tamper-proof "pill design." During a news conference, a reporter asked Burke, "What would you tell the mother of Diane Elsroth?" He answered, "I would tell her I wish we had implemented this solution four years ago."

> "Staying on course is much easier when things are going well."

As the Johnson & Johnson experience proves, corporate leaders often fail "to get to the root cause" of their emergencies. Firms under pressure often misidentify symptoms as problems. Unfortunately, treating symptoms does not solve problems, so the root causes continue to fester and can strike again. When dealing with a crisis, get all the facts with no sugarcoating. Adopt the military approach of "trust, but verify." Digging out the root causes of your problems is difficult, but crucial, even if your findings have unnerving implications. To address a company's most serious risks, its leaders must bravely confront their fears.

"Lesson 4: Get Ready for the Long Haul"

Never prematurely signal that a crisis has been overcome until you are sure that it has. Former U.S. President George W. Bush learned this the hard way during the Iraq war when his staff displayed a banner reading "Mission Accomplished" aboard the USS *Lincoln*. U.S. soldiers stayed in combat years after Bush's premature public relations event.

> "There could not be a better testing ground for leaders than the global economic meltdown."

Often, executives think they can weather a crisis with short-term tactical moves like reducing production until consumers resume purchasing. But if such short-term fixes don't work, fundamental changes may be in order. Don't be afraid to make them.

During the 2008-2009 economic crisis, many executives ignored early signs that subprime mortgages were in trouble. Even the "forced sale of Bear Stearns to J.P. Morgan" failed to awaken them. They began to see how badly things had deteriorated in September 2008 when Merrill Lynch, AIG and Lehman Brothers "all blew up in the same week."

> "In the early stages of a crisis, it is easy to mistake the first symptoms that appear for the real problems."

However, Goldman Sachs had been alert to the problem all along. More than a year earlier, when it had a $1.2 trillion balance sheet, it had suffered a minor loss in subprime mortgages. A careful internal review of its subprime mortgage business revealed that Goldman Sachs could be in big trouble unless it made major changes. The firm quickly discontinued working with subprime mortgages, even as Countrywide, Citigroup, UBS and AIG strove to build up their subprime portfolios. The business crashed the following year. Was Goldman Sachs just lucky? No, it had carefully analyzed the heavy risks of subprime mortgages, understood the dangers and immediately limited its exposure. Many people don't see that bad situations can get worse. Goldman Sachs' leaders saw.

"Lesson 5: Never Waste a Good Crisis"

The Chinese character for the word "crisis" consists of two separate symbols, one signifying danger and the other signifying opportunity. This is apt. Visionary CEOs always see opportunity in crisis. They often use crises to overhaul and transform their operations. This is what Wendy Kopp did with Teach for America (TFA), the firm she founded in 1989. Dedicated to providing teachers for inner-city schools, TFA did well in its first few years. However, in 1995 it fell into trouble. Sponsors fled. Teacher applications faded. TFA faced a $2.75 million deficit.

> "Even when an organization is in a full-fledged crisis mode, many people assume that they just need to make tactical changes to get through the crisis."

Kopp was spending 100 hours a week trying to get things back on track. Finally, she stopped to think. After careful analysis, she restored TFA's "core mission." She cut 40% of her payroll costs, killed two new initiatives and developed a five-year plan. With these sweeping changes, Kopp turned TFA around. By 2008, it had 10 times more teachers and 22,000 alumni, 60% of whom stayed in education. Kopp used a major crisis to make TFA better.

"Lesson 6: You're in the Spotlight"

In 2007, customer complaints prompted Mattel Toys to test the lead content in its products. Lab reports showed that the lead levels exceeded safety standards. Mattel recalled millions of toys. During his congressional testimony, Mattel CEO Robert Eckert stated that the firm's Chinese suppliers were responsible for the lead content problem. "[The] contractor's failure to follow well-established rules forced the recall of millions of toys with lead paint," Eckert said.

> "The modern media world with its multiplicity of new information sources presents myriad pitfalls and opportunities."

As a result of Eckert's testimony, the U.S. public immediately went on the warpath against Chinese toy manufacturers. U.S. Senator Sam Brownbeck added to the clamor by saying, "Made in China has now become a warning label." But who truly bore responsibility for the dangerous toys: the Chinese who made them, or Mattel, which ordered and sold them?

> "When you find yourself getting into a crisis, it is human nature to think things couldn't get any worse...Things could get a lot worse."

As the public relations outcry against Chinese manufacturers increased in volume, Mattel's executive vice president publicly "apologized to the Chinese minister" for blaming China. "Mattel takes full responsibility for the recalls and apologizes personally to you, the Chinese people," the VP said. When Mattel placed its logo on the toys, it certified that they were safe. Eckert was wrong to shift the blame away from his company. He damaged Mattel's good name and his own.

> "It is tempting to think of crises as events to weather until things return to normal."

When a company crisis hits, the media go into overdrive. Of course, businesses must also now contend with social media, such as blogs and YouTube. Under pressure, a CEO easily can say the wrong thing and aggravate a bad situation. Don't make this mistake. Transparency should be your watchword. Open up to the media. Do not dissemble. Reporters and the public will respect your firm for its honesty. What about whistle-blowers? Transparent organizations demonstrate they have nothing to hide. Thus, whistle-blowers become irrelevant. Make unambiguous statements to get "out in front of the crisis."

"Lesson 7: Go on Offense; Focus on Winning Now"

Don't batten down the hatches during an emergency. A crisis is a gift you can boldly exploit to restructure your business so you come out stronger than ever. Follow these seven steps:

1. **"Rethink your industry strategy"** – To do so, you need to develop an acute understanding of your customers and their needs.
2. **"Shed your weaknesses"** – This is what Xerox CEO Anne Mulcahy did when she cut 28,000 jobs during a business crisis in order to regain competitiveness.
3. **"Reshape the industry to play to your strengths"** – This exposes the weaknesses of your competitors.
4. **"Make vital investments during the downturn"** – What could be bolder than making a new strategic move "when you're on your knees"?
5. **"Keep key people focused on winning"** – While you ensure that the company stays afloat, assign an executive team to develop a "post-crisis strategy."
6. **"Create your company's image as the industry's leader"** – Wall Street's recent PR traumas opened the door for a financial industry executive to demonstrate leadership. In April 2009, Lloyd Blankfein did so by detailing the need for systemic industry changes, including in such areas as regulation and compensation.
7. **"Develop rigorous execution plans"** – New strategies are worthless without sound marketplace implementation.

"Your Defining Moment"

In 1933, when U.S. President Franklin Delano Roosevelt took office, America was in dangerous straits. The country was in the midst of the Great Depression. One out of four people was unemployed. Business investment was off by 90%. Banks had closed in 34 states. During his inaugural address, Roosevelt said, "The only thing we have to fear is fear itself." He rallied Americans, pulled the U.S. out of the Depression and, later, helped lead Allied forces to victory in World War II. During these multiple crises, Roosevelt defined himself as a great leader.

> "Leaders often fail to see the crisis coming."

Going through a crisis will define you, so write the definition yourself. "It is in...crisis that you learn who you really are." Be bold when crisis hits. Demonstrate leadership. Always stick to your values. Don't let a crisis blow you off course.

About the Author

Bill George, professor of management practice at Harvard Business School, is the former chairman and CEO of a leading medical technology company. The Academy of Management recognized him as Executive of the Year.