

Good example of leadership and decision making in crisis in the global era: how I...

[Business](#), [Company](#)



Abstract

Contemporary business environment demands from organizations more flexibility and higher responsiveness to the external pressures. Management capabilities cannot address these challenges. In the crisis situations, when there is a need to make fast and difficult decisions in difficult situations, companies have to rely on effective leadership to drive organizational development. The history illustrates various examples of the organizations, which are over managed and under led and it is a challenge and the task of the modern corporations to develop an internal framework for development of the leadership capabilities, which can take the organization to success through crisis.

One of the most important organizational objectives in the contemporary business setting is to develop a “ competency model,” which can help to identify and incorporate the required crisis and change management skills into the organizational structure.. The reality shows that crisis situations are not common, and each situation is different, thus, skills and expertise, required to handle it are very scares in the business environment. With that in mind, the companies should be able to ensure that crisis management and the corporate culture are built upon preventive thinking, rather than reactive with regards to the crisis and change management. The key for the leadership is to possess and develop strong emotional management skills as emotional intelligence is the half the battle, when it comes to the crisis.

Key Words: leadership, competency model, organizational structure, corporate culture.

Introduction

Contemporary business environment is extremely dynamic, and the scope and scale of organizational activities determine the ways in which generic strategies, organizational functions and planning develop over time. The reality shows that modern companies have to become more agile and responsive to the constantly changing external environment. Many companies realize that the key factor for succeeding is to be able to build on the right human resources and capabilities and find a balance between the management and leadership resources. That said; there is a wide discussion in academic and business circles with regards to the understanding of management and leadership, which leads to a general conclusion about the necessity to differentiate these concepts in order to be able to build a successful and sustainable organizational structure and corporate culture. Kotter (2014) argues that the history and modern business setting provide numerous examples of the organizations with a solid organizational structure and technical expertise, which, however, fail to go through the turbulent times of economic crisis or simply implement change, following the changes and evolution of the external environment. organizations built excessive management capacity, which was adequate for the times of stability, when the organization requires good day-to-day controlling mechanism of repetitive and routine tasks. Once it comes to the need to bring change, gain the stakeholder buy-in and inspire commitment, these organizations find themselves lacking critical human capabilities. The fact is that many companies are over managed and extremely under led.

The moment of crisis is a stage, when the companies can either stay behind

the competition and slowly lose their competitiveness on the market or excel and enter the new stage of their development. Examples in the history of business affairs, such as reincarnation of the Xerox Corporation, a new Yahoo! Strategy, which helped the organization, go up the digital business ranking, re-evaluation of the McDonald's strategy to incorporate business diversification through McCafés, reinforcement of the leading market position of Apple after the death of Steve Jobs and demonstrate how leadership and its correct application can develop the business and benefit from the crisis situation. One could argue that the success of these companies is the personal achievement of Ursula Burns, Marissa Mayer, Donald Thompson and Tim Cook and their leadership. The point that should be considered here, however, is the combination of factors, specific situation and personality traits, which influence the decisions and actions of the leaders. The reality is that leadership can positively affect the organizational development, but the effectiveness of leadership is a complex mechanism, where individual characteristics and external pressure determine the outcome of the development. The topic that this literature review aims to explore is: " the impact of leadership and decision making in crisis in the global era: how leadership can encourage the development of the business?" The argument is that leadership can lead to effective implementation of change and advancement of the organization in a competitive environment through reinforcement of unique resources and capabilities and effective response to the changing market conditions.

This document will explore a variety of scholar literature, including theoretical and empirical studies on effective leadership, the meaning and

job of leadership and the examples of the companies and organizations, which developed through the times of crisis under the strong hand of effective leaders. The ultimate goal of this literature review is to better understand the ways in which leadership can encourage organizational development, the challenges, which prevent the organizations from growth most common and widely used frameworks of leadership, known to date.

Literature Review

What differentiates crisis situation from “ business as usual” and what are the alerting characteristics, which should switch on an emergency signal and call for crisis leadership and management? Some of the most common attributes of crisis are time pressure, high level of risk, constantly changing goals, frustration and uncertainty. Oxford dictionary defines crisis as “ a time of intense difficulty or danger when a difficult or important decision must be made.” As it can be seen, crisis is always associated with the decision-making process and this responsibility often meets a lot of resistance at all organizational levels (Dewin 2007). Extensive research on the crisis management situations and the issues associated with it illustrates that the majority of the failures are attributed not the panic from the regular population, employees or the victims of the situation, but to the lack of coherency and organization in the process of response to the challenge. One of the major issues is the lack of focus on communication and consistency in understanding of the situation from the individual’s (leader’s) perspective and the team standpoint (Crandall & Spillan 2010). The research illustrates that the success of the crisis management is seen in the companies and

situations where the communication process was established and effectively conducted throughout all five stages of the crisis, triggering the event, escalation, the core of the crisis, recovery and post-crisis. The complexity of the crisis management and communication prevention and handling strategies necessitates all level involvement of high level leadership. One of the most challenging tasks of the organizations is to build on the leadership pool, which will be able to bring forward and preventive thinking to crisis management, rather than seeing it as a technical issue.

The reality of the crisis management is that the situation, which demand urgent and extremely complex decisions do not happen on a daily basis, which naturally causes the lack of individuals with specific crisis management skills. Indeed, crisis is something, what we try to avoid on the first place. The scarcity of this exposure and personal and organizational experience along with the general dynamism and unique characteristics of each crisis situations explain the necessity of learning on demand. Roux-Dufort (2007) describes crisis as the “ accumulation of organizational imperfections” he author suggests that the two approaches to the crisis, event and process, can outline eery different view on the situation. While event approach recognizes the triggering event in the crisis situation, process approach looks for the chain of events that led to the crisis situation. The combination of unexpected and the wide spectrum of the business crisis call for fast and effective management, which can often lead to success rather than failure. The above outlines the purpose of leadership in crisis as finding and cultivating the potential success and leveraging the risks of eventual failures (Augustine at al. 2000).

There are various theories behind the origin of leaders, which can mainly be summarized in biological and psychological origin. McGregor Burns (2012) argues that in the majority of the situations these studies lack the critical focus on the cultural phenomena and the normality of leadership, which is seen in one culture, can be completely abnormal in another. The author explores the difference and interrelation between the leadership and fellowship, stating that leadership is an aspect of power, which allows controlling and not only inspiring commitment, which is an attribute of fellowship. The point that should be made here is that in contrary to fellowship, leadership exercises power, expressed through intrinsic motivation of a leader to achieve certain goals of his own, fit and he reaches his objective through influencing the behavior of others. This influence in the majority of cases is the ability to activate the motives, which are relevant to the goals and resources of the leader (Gill, 2011).

There is a fundamental issue with the leadership studies, as a large number of empirical and theoretical studies attempt to find a fit-for-all framework of leadership and explain leadership capabilities from the perspective of an effective executive. The reality is that leadership is not a straightforward and acquired skill or capability, which can be developed or built from scratch, but it is a complex personal development path, which does not fit into any of the standard conceptions of the organizational behavior (Drucker, 2004).

Gumusluoğlu and İlsev (2009) argue that the newly emerging concept of situation and transformational leadership are the result of the experiences of the organizations, which realize that the change should be led and implemented with the reasonable consideration of the external factors. That

said; leadership itself should be a subject to transformation and should be seen as, first of all, the ability to adjust and evolve, according to the situation, timing and people, with whom the leader is dealing.

What does it mean to be a leader in a crisis situation? There are several lessons of leadership in a crisis. First of all, one should realize that leadership position is about facing the reality as a person in charge, whose message is then passed over to other people. Communication is critical for the effective leadership, especially in the situations when the stress and uncertainty levels are extremely high. One of the paramount characteristics of leadership, as opposed to management, is taking the organization away from the tempting opportunity to find a short-term fix to the crisis, which addresses some of the symptoms, but does not really solve the problem from within the core. Secondly, it is the responsibility of the leader to realize that no matter how bad the situation is at the moment, there is still potential chance that things can worsen (Vries, Bakker-Pieper, & Oostenveld 2010). Realizing this and understanding the responsibility for the management of the situation helps leaders set the mark and take necessary measures to solve the problem. Thirdly, one of the important lessons of crisis management is to be able to recognize the value of financial health. In many cases, management is focused on the revenue and the earnings per share, which outline the financial position of the company. At the time of crisis, the emphasis of the company should be on the balance sheet as liquidity is the key to survival and sustainable recovery in the long-term (Peng 2014).

George (2009) focuses on the lesson of open and transparent communication and information flow. Many leaders at times of crisis attempt

to carry all the weight on their shoulders and forget that the solution and its implementation is the job for the team. With that in mind, to devise a solution, leaders should bring people in their confidence, and this can only be done, once emotional management and stress level of the leader himself are reasonable. Another important element of the leadership in crisis is the ability to sacrifice and do it before asking for the same from other individuals. The reality is that leadership and the respect, which individuals develop to their leaders, depends on the ability to remain loyal to the values and not fall under the pressure of external factors. Often, leaders get bound by the possibility to fix the immediate future and fail to recognize the value of sacrifice today to fix the near term, as well as a long-term future for the company (George 2009). Heifetz and Laurie (1997) argue that a crisis is a great opportunity to fix things and make the organization develop. The reality shows, however, that in the majority of cases, people see crisis as something that should be feared of and when no important decisions or steps should be made. With this mindset, leaders resist to major changes and try to escape the crisis with minor adaptations. The fact is that, however, crisis opens opportunity for significant changes and transformation of the company, which should be done with the confidence and belief of a leader and, thus, depends on the individual's ability to realize the need, introduce it to the stakeholders and get their buy-in and implement the change (Heifetz & Laurie 1997). Finally, leadership in crisis is a way to gain competitive advantage over other players, which are not responsive and fast enough to capture the opportunity. With that in mind, according to George (2004), crisis management and leadership should be aggressive. As much as

counter-intuitive as it may sound, notes the author, the market, which becomes irrevocably changed after the crisis will not allow the organization to go back to the “ business as usual” and the only way to leave the crisis as the winner is to recognize the need to change along with the external environment.

Leadership in crisis demands a set of characteristics that are different from the “ business as usual” situation. There is little chance that at the time of great crisis and serious obstacles on the way to business development the leader will remain stressless and knowledgeable to the extend, which will make all the decisions fact-based and logical. The reality is that good and inspirational leaders should be able to demonstrate their own weaknesses, take decisions based on intuition, work with tough empathy and not hide their differences from others (Goffee & Jones 2000). An interesting study was conducted by Goffee and Jones (2000), who decided to explore the leadership through the personal perspective of the individuals, occupying leadership roles in various organizations. The core question of the study was: “Why Should Anyone Be Led by You?” This question was asked to a high level executives at the beginning of the research, looking for other than authority, energy, vision and strategic direction and other cliché characteristics, which can explain outstanding performance of the individuals.

There are numerous examples of the situations, in which highly skilled and talented professionals, promoted to a higher position, fails the job.

Schoenberg (2005) argues that leadership is one of the most important elements of crisis management and, yet, it received very little attention in academic and business literature. There is “ virtually no research that

identifies the knowledge, skills and abilities necessary to lead the organization through the crisis phases" (Schoenberg 2005: 372). What are the reasons for these failures and how to identify the risks, associated with the changes in vertical and horizontal levels of responsibility? Goleman (2004) explores the quality of the leadership and looks into the roots of leadership to understand the reasons for highly effective and successful leader's failures in new positions. The finding of his research illustrates that the major challenge for many talented leaders is to be able to adjust and transform their leadership style to fit the situation and the individuals, with whom they are dealing. Taking into consideration the complexity of the business design and each of the organizational functions, " identifying individuals with the right set of skills and expertise became more art than a science" (Goleman 2004). To understand the leadership, which is required for the organization in particular time and situation, one should be able to formulate and clearly communicate the generic goals. It is the organizational function, which should take care of alignment between human capital and in-house expertise and the desired results, set by the planning function (Scholes & Wittington 2011). One of the critical elements of the leadership is an emotional intelligence, which can be seen on five levels: self-awareness, self-regulation, motivation, empathy and social skills. To be able to develop the organization through the right leadership pool, the companies should build on the " competency models," which help determining personal capabilities, driving outstanding performance (Goleman 2004; Yukl 2009). Collins (2001) spent five years and analyzed leadership pipeline in eleven different companies to come up with a framework based upon the

transformational path of the great leaders through five levels of leadership, including highly capable individuals, contributing team member, effective leader and executive levels, where the last two represent the level of great leadership, which can take the company through crisis by catalyzing the commitment and building “enduring greatness.” The author argues that in order to develop the company through crisis it does not have to have great leaders all over the company and neither it should be able to ensure that the entire cohort of the employees is level one leader. On the contrary, the organization should ensure to develop one or two level 5 leaders, which will be able to, see the situation “from the helicopter” and ensure the commitment from the others. The point is that over managed or over led organization is equally damaging for a business model and sustainability as the one, which lacks leadership capabilities.

Conclusion

Leadership is one of the most important and, yet, least explored elements of the crisis management. There is very little research into the actual set of skills and capabilities, which comprise a profile of individual, able to lead an organization through change. The reality demonstrates that the crisis can be a trigger for a very successful transformation for the organization as well as lead to failures. The response to the crisis situation and the view on it determine the manner in which the company reacts and, consequently, leaves the crisis. The reality shows that many companies and the top management see crisis as the unavoidable consequence of the external influences and adopt fully reactive approach to handling the situation. As a

result, these companies do not have clear understanding of the objectives, which they set in front of themselves, once entering the crisis as well as do not build on comprehensive people management strategy, which would enable right skills and expertise to develop crisis response. The lack of strategic focus and coherent long term planning for leaving the crisis is one of the major issues in the contemporary companies in the global era.

Another issue, which was identified in the companies, is the inconsistency of the approach to the building of the leadership pipeline, where the organizations often find themselves over managed and under led. The reality shows that in many situations, effective crisis management can be conducted and led by one individual on the high level of the executive hierarchy, which can inspire commitment and build on enduring greatness. It is the ultimate responsibility of the top management to create the right environment and analyze the capability gap in the company to be able to find, attract and retain the right talent in leadership, able to take the organization through all five phases of crisis management as well as adopt and integrate preventive thinking and philosophy in the organization.

Finally, one of the biggest challenges for the organization to develop at the time of crisis is the ability to build an effective “ competency model,” which can determine the set of skills and expertise, required for effective leadership. One of the most important aspects of the leadership, which takes the organization through the crisis is emotional intelligence and strong emotional management skills. There is a clear need for leadership, which is able to sacrifice and demonstrate by example the desired behaviors as well as illustrate the bond with the individuals, which are being led through the

crisis. This should be done through acceptance of own weaknesses, ability of a leader to learn from others and work in a team as well as effectively illustrate the differences between leading personality and the others, which should explain the authenticity of a leader and answer the question: “ Why Should Anyone Be Led by You?”

Crisis management is a learning on demand process, as the situations, which demand emergency management and difficult decision making are not common in “ business as usual” environment. With that in mind, the human resources and capabilities, which can effectively lead an organization through crisis are very limited on the market and should be developed and nurtured from within the organization. It is important that right leadership, even when it is just one single individual within a large multinational corporation, can develop the organization and take it to success and win throughout crisis. To achieve that, the company should be able to recognize the need for this leadership, develop it and retain within the company, which exercises preventive crisis management strategy.

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