# How Entrepreneurial Leaders Can Navigate a Crisis Successfully: Lessons and Hypotheses

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**Abstract.** This article deals with leadership responses to organizational crises. A sample of organizations were examined in order to derive insights and lessons which might help corporate leaders navigate organizational crises, including: American Express, Chrysler, Disney, Eastman Kodak, International Harvester/Navistar[3], Osborne Computer, Sears, United Airlines, and Westfield. The sample included successful and unsuccessful crisis responses, entrepreneurial and established institutional enterprises, and crises precipitated by external factors and/or internal factors. The study addresses the nature of the crises encountered, the underlying causes, whether there are significant differences between entrepreneurial companies and established companies, and whether a set of organizational preconditions of susceptibility to a crisis exists. It also identifies lessons to be derived from both successful and unsuccessful leadership of a crisis, and areas for future research.

**Keywords:** organizational crisis, crisis susceptibility, successful and unsuccessful crisis leadership.

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3.  As part of the crisis leadership process, International Harvester was transformed by divestitures into Navistar, as described in Flamholtz and Randle (2020).

## 1. Introduction: The Challenge

Although the primary threat of the Covid-19 Pandemic has been an existential threat to human life and health, the second order effect has been a similar existential threat to economic organizations. Economic activity has plunged and not yet fully recovered in spite of massive economic stimulus by governments globally.

The challenge to leadership of all types of organizations both public and private, governmental as well as business, entrepreneurships as well as established enterprises from the Pandemic caused by the coronavirus is unprecedented in modern history. Although there have been plagues through human history such as the Black Plague that began in 1347 and the 1918 Flu Pandemic that killed an estimated 50 million people worldwide, never before in human history has a pandemic occurred globally with such swiftness and ferocity. The difference today is due to the unprecedented globalization of travel and movement of peoples.

Unfortunately, so-called Black Swan events like the current pandemic, which are supposed to be quite rare, have begun to appear with increasing frequency. This suggest that corporate leaders need to develop their competence in dealing with crises. This is likely to be especially true of leaders of entrepreneurial firms which typically lack the deep-pockets and access to financial resources of more established enterprises. For example, Exxon lost $22 billion in 2020, but for most entrepreneurial firms even a tiny fraction of that that number would lead to bankruptcy.[4]

1.1. Purpose and Objectives

Given the challenge described above, this article deals with leadership responses to organizational crises. Specifically, it focuses upon how leaders can respond to organizational crises caused by a variety of factors such as the Covid-19 Pandemic and/or other external and/or internal factors.

Many companies are experiencing a major economic crisis that was the second-order effect of the Covid-19 pandemic. Our own first-hand experience with entrepreneurial companies and their leaders indicated that some were "shell-shocked" by the pandemic, and their initial responses were analogous to the "Deer in the headlights" Syndrome. Specifically, they virtually froze, stopped all spending, laid off workers, put people on so-called "furloughs," suspended or cancelled contracts, and hunkered down hoping it would end quickly.[5] Although

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4.   Matthews (2021).
5.   Our own firm's experience was that several entrepreneurial clients immediately suspended written agreements during the second weekend of March, 2020 when the Covid-Panic first hit the economy, the stock market and the general population.

that was one plausible response, it did not seem to be an optimal response. We were asked for advice and input by some entrepreneurial leaders based upon our experience and research: "How do companies handle crises? What works and what doesn't work? Are there any "role models" of how to handle a crisis"?

Accordingly, we decided there was an immediate emergency need to help these and other leaders to get insights, lessons, role models, and possibly a "playbook" that they could use to navigate the current and potential future crises. The rationale was that just as certain vaccines have been authorized for emergency use with less time involved in their development, our objective was to help entrepreneurs and others by rapidly developing insights, lessons, and ideally a playbook (or set of action steps) that had worked in other past crises. Our premise was that when faced with an actual crisis of this magnitude, it is not reasonable to wait for a perfect solution. As General George Patton, legendary leader of the Third US Army that participated in the liberation of Europe during WWII, once stated: "a good plan today is better than a perfect plan in the future."[6] Accordingly, what is presented here is the result of an initial attempt to provide a useful perspective and body of information that, while not perfect in a longitudinal research sense, can be useful and is immediately available to leaders faced with a crisis.

## 1.2. Background

The source of the proposed body of information (insights, lessons, and "playbook") to be provided was an ongoing research project dealing with organizational success and failure. Specifically, during the past 25 years we have been engaged in a long-term research program to study organizational success and failure. The research program has involved a combination of methods including survey research and case analysis. Drawing upon our research data base which includes case studies of organizations, we selected a sample of organizations that had faced crises in order to derive insights and lessons which might help corporate leaders navigate the crisis caused by the current Covid-19 Pandemic. This research has now described in a book titled, *The Crisis Leadership Playbook* that was published in 2020.[7]

Accordingly, this current article draws on this study and the related book to provide an introduction and synthesis of the key findings. However, this current article actually includes some additional analyses which were not included in the related book, because the emphasis of the book was on practical insights and lessons that could help organizations deal with the immediate effects of the crisis,

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6.  General George Patton, "General George S. Patton's Speech to the Third Army," somewhere in England June 5, 1944, The Patton Museum Foundation, no date.
7.  Flamholtz and Randle (2020).

while the article is aimed at that and at future theoretical and research issues as well.

## 1.3. The Immediate Need and the Sample Used

Given the immediacy of the need for the perspective on leading through crises, the sample of companies used was one that already exited as part of the broader research program, which had been collected over a period of more than 10 years. It was deemed to be infeasible to begin research on a new set of companies and complete the study in real time to permit our findings to be utilized by current organizations that were in the midst of the economic crisis caused by the Covid-19 pandemic. Accordingly, the limitations of this approach were understood and deemed to be acceptable give the immediacy of the need. However, recognizing the limitations of this approach, a secondary objective of this study was to serve as hypothesis and model generating research, which could be the basis of future research.

## 1.4. Demographics of the Sample

The companies or case studies included in the sample were: American Express, Chrysler, Disney, Eastman Kodak, International Harvester/Navistar[8], Osborne Computer, Sears, United Airlines, and Westfield. These case studies were selected to illustrate both:

- Successful and unsuccessful examples of leadership responses to crises, and

- Entrepreneurial (1/3) as well as more established institutional or professionally managed enterprises (2/3).

- Crises precipitated primarily by external factors; and crisis precipitated by internal factors such as poor management decisions.

The examples of **successful leadership** of crises were American Express, Chrysler, Disney, Westfield.  The examples of **unsuccessful leadership** of crises were Eastman Kodak, Osborne Computer, Sears and United Airlines. The case of International Harvester/Navistar was classified as a "partial-success." We operationally defined "**successful** leadership of crises" to be situations in which the companies achieved or returned to or exceeded prior levels profitability and

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8.   As part of the crisis leadership process, International Harvester was transformed by divestitures into Navistar, as described in Flamholtz and Randle (2020).

continued to operate profitably for a sustained period of at least five years and ideally longer  after the leadership initiatives were created and executed. We operationally defined "**unsuccessful** successful leadership of crises" to be situations in which the companies either failed to achieve or return to prior levels of profitability or experienced bankruptcy after the leadership initiatives were created and executed. International Harvester/Navistar was classified as a "**partial-success"** because it returned to prior levels of profitability for a while, but then experienced another phase of decline in profitability.

The "pure" entrepreneurial cases (defined as companies either being led by the original entrepreneur and/or still operating in the "virtual mode," explained below,  developed by that entrepreneur) were Osborne Computer and Westfield, and Disney. Specifically, Osborne Computer and Westfield were being led by their original founders at the time of the crisis.  At the time of its crisis, Disney was no longer being led by its founder Walt Disney, who was deceased. However, it was still being led in an attempt to replicate the virtual mode of its founder by the son in law of Walt Disney (Ron Miller), who reputedly asked: "What would Walt have done in this situation"?

The "established enterprises" (defined as companies being led by "professional managers" who were not family member of the original founder) were American Express, Chrysler, Eastman Kodak, International Harvester/ Navistar, Sears and United Airlines. However, if we look more closely at these cases,  we will see that some of the so-called established companies (notably Sears, Kodak, Navistar, and United Airlines,) behaved (at least to some extent) like entrepreneurial companies, as we shall examine below.  Stated differently, these companies  behaved in an entrepreneurial or intrapreneurial fashion.

Another feature of our sample is that all except one were founded in the US but and all except one operate globally. Westfield was founded in Australia, and then expanded to the US and Europe. It was purchased by European property giant Unibail-Rodamco in 2017, and currently operates as part of that firm. In addition, all  of the companies in our sample (except Osborne which is defunct) operate globally.

## 1.5. A Crisis Is a Crisis Is a Crisis

Another premise underlying this study was that a crisis is a crisis is a crisis.[9] This means that while all crises are different in certain respect, they are essential the same in their underlying imperative to create an immediate response. Stated differently, all people, Redwoods and snowflakes are unique in certain respects,

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9.   Gertrude Stein is the originator the statement that "a rose is a rose is a rose," which, in turn, is likely based upon the earlier German notion of "*Mark gleich Mark*."  Perhaps similarly, the late US President Ronald Regan famously stated: "If you've seen one Redwood, you've seen them all."  A "Redwood" refers to the great trees found in Northern California.

but there is sufficient commonality among them all to treat them as a category. Accordingly, our perspective is that all crises are similar to the extent that we can learn from them and devise some general notions and possibly even principles that are relevant to crises leadership.

## 1.6. Organization and Content

In order to provide context for the findings presented, this article will provide a summary of each company and the key aspects of its related crisis. Specifically, we will provide a summary of highlights of each crisis, as described below. We will also describe the methodology or model used to examine each case study of a crisis.

## 1.7. Methodology or Model Used for Each Company's Crisis

For each company's crisis, we used the following template or model to examine the leadership of the crisis:

- A description of the company.

- A description of the crisis encountered, and its classification of the primary of its cause as either external, internal, or a combination of both.

- The leadership Initiatives taken.

- The results of the leadership Initiatives taken.

- Our analysis and evaluation of the leadership Initiatives taken and their results.

- Our interpretation of lessons to be derived.

Although the same content is covered in all descriptions, the presentation format is somewhat different in each case so it can be presented as a narrative story.

1.8. Research Questions

Each of the case analyses of a company's crisis was also treated as data for a secondary analysis of six key questions or issues:

1. What was the nature of the crises encountered by the various firms?

2. What can be learned from the set of entrepreneurial companies which experienced crises?

3. What can be learned from the set of established companies which experienced crises?

4. Are the lessons from entrepreneurial companies the same or different from the set of established companies which experienced crises?

5. Are there a set of organizational characteristics or preconditions of "susceptibility to a crisis"?

6. What are the lessons to be derived from successful leadership of a crisis? and

7. What are the lessons or insight to be derived about unsuccessful leadership of a crisis?

Question 1: Although "a crisis is a crisis is a crisis," are there meaningful differences in the types of crises encountered in organizations? We examined the findings from both types (categories) of companies (entrepreneurial and established) to determine the underlying nature of the crises they faced and their respective root causes.

Questions 2 & 3: we examined the findings from both of entrepreneurial and established companies to determine: 1) the underlying primary cause(s) of their crises (internal, external, or both combined), and 2) to a determine whether each type or category of organization experienced the same or different primary causes.

Question 4: We then attempted to identify the key characteristics of "susceptibility to a crisis."

Question 5: We also examined the key lessons derived about *leading successfully* in a crisis in order to derive a set of general principles for successfully leading and managing crises.

Question 6: Finally, we also attempted to identify key lessons derived about *leadership failures* to resolve a crisis successfully.

These findings are presented and examined after our summary of each company and its related crisis in the next section.

## 2. Summary of Highlights of Each Organizational Crisis Studied

In order to provide context for the findings presented, this section will provide a summary of each company and the key aspects of its related crisis. We will begin by first examining the crises at the three companies that were entrepreneurial: Osborne Computer, Disney, and Westfield. Then we will examine the crises at the other companies including Chrysler, American Express, Eastman-Kodak, Navistar, Sears and United Airlines. It should be noted that some of these companies faced multiple crises and not just a single crisis. Those with multiple (or what can be termed "a perpetual crises"), included Sears, Eastman- Kodak, and Navistar. In the cases of these three firms, we will examine some but not all of the crises experienced by each firm, in order to reduce the scope of the discussion. We will, however, address the most relevant aspects.

2.1. Osborne Computer

Although Osborne Computer was initially highly successful and achieved revenues $100 million in two years, it then experienced a crisis that required it to file for bankruptcy! The cause of the crisis was internal. Specifically, Osborne's crisis and ultimate failure were brought about by a *failure to manage the company's rapid growth effectively*. This is a classic problem of many, if not most, entrepreneurial companies. We have been studying this core problem for several decades, and in our view the experience of Osborne Computer is, to a very great extent, prototypical. Accordingly, it is a good vehicle for insights for entrepreneurs.

As is typical of most entrepreneurs, Osborne Computer Corporation began when Adam Osborne recognized a market need. Specifically, he saw the need for a microcomputer that was relatively low-priced, easy to use, portable, and that came with software (something very unique at the time). His idea was a spin-off of the personal computer concept pioneered by Apple Computer, but Osborne identified a new market segment when he made his computers easy to carry.

After its inception, Osborne Computer experienced extraordinarily rapid growth. In 1981, the firm's first full year of operation, its sales were $5.8 million. By 1982, sales had grown to $68.8 million. During 1983, they were growing at an annualized rate of more than $100 million per year.

Osborne's success was the classic entrepreneur's dream of meteoric success come true, but it also turned into a classic entrepreneurial nightmare and crisis. Just as success had come with meteoric speed, the end came with similar meteoric speed when suppliers sued to collect $4.5 million that Osborne simply did not have. Accordingly, Osborne filed for bankruptcy under Chapter XI of the U.S. Federal Bankruptcy code in September 1983.

In his book entitled *Hypergrowth: The Rise and Fall of Osborne Computer Corporation,* Adam Osborne sadly stated, "For Osborne Computer Corporation the game was over."[10] According to Adam Osborne, the fundamental explanation of its crisis and ultimate failure was:

> "We had existed only eighteen months in terms of operation – hardly time to get my feet wet; all of a sudden the job was a whole different order of magnitude. I realized it was no longer an entrepreneurial operation in any conceivable way."[11]

Some of the specific problems faced by Osborne Computer were present from the company's earliest days, but they were masked or at least made less acute by its rapid sales growth:

- Engineering problems and manufacturing disputes were buried under an avalanche of orders created, in part, by a very successful advertising campaign.

- Money flowed into Osborne Computer and the firm received a great deal of visibility, but it was actually a profitless prosperity:

    o Although revenues were $5.8 million in 1981, the firm incurred a loss of $1.3 million.

    o The next year, when sales exploded to $68.9 million, the company still incurred a loss of $1 million.

    o During the first quarter of 1983, sales were $34.4 million, for an annual running rate of more than $137 million, but the firm still had a loss of $600,000 for the quarter or $2.4 million on an annualized basis.

Clearly, these things (or entrepreneurial "growing pains") indicated that something was wrong with its operations. There was also a leadership and management problem attributable to Osborne himself. Osborne recognized that he was in over his head as a manager. As he stated:

> "Growth had taken Osborne Computer Corporation to a size where I had to question my own qualifications. I had no professional training whatsoever in finance, management, or business administration, the very disciplines within which I was making critical business decision every day."[12]

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10. Osborne and Dvorak (1984).
11. Robert A. Mamis (1983).
12. Osborne and Dvorak (1984).

In May 1982, Osborne began looking for a seasoned professional manager to become president.  The search process was not completed until the second week of January 1983, almost nine months later.

The ultimate failure of Osborne Computer was attributable to a combination of factors, but was precipitated by a slowdown in orders and cash flow that exacerbated all its other problems. However, the root cause  of failure was Osborne's inability to develop and implement processes and systems ("organizational infrastructure") needed to effectively and efficiently function as the larger company it had become.  It also failed to adjust to market changes that eventually would have caused other problems.

Osborne understood that his firm was in crisis;  but despite this recognition, he was unable to make the required changes in himself or his company. He simply did not have the insights, experience, or "playbook" to make the required changes to avoid the failure of his firm. It was a sad ending to a very promising entrepreneurial beginning.

## 2.2. The Crisis and Near-Death Experience of Westfield

Another entrepreneurial firm,  Westfield was founded in Australia as a shopping center company by Frank Lowy and John Saunders in 1959.[13] The firm a was founded,  as many entrepreneurships are, without formal strategic planning based on a hunch that the two entrepreneurs could replicate the success of Shopping malls in the United States in Australia.

Lowy and Saunders had guessed correctly, and by 1985, the firm had grown in size and scope and become a public company.

Unfortunately,  the success of their "seat of the pants" approach to shopping centers, was to bite them later. Specifically, the crisis experienced at Westfield was caused by a naïve diversification into a business that was not part of the company's core of competence combined with a sudden change in the environment from the worldwide stock market crash in October 1987. The stock market crash caused a sharp drop in the market capitalization of Westfield Capital, as well as a collapse of media company share prices in Australia.

The preconditions and events that led up to the crisis began in 1986, when Westfield Capital was created as a vehicle for long-term equity investments in companies outside of the shopping center industry in order to diversify the parent company.  This diversification was intended as a means of protecting the core shopping center business, yet it led to the precipice of near disaster.

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13.  Frank P. Lowy, who is the principal leader in this is case example, was born in Czechoslovakia
     in 1930 and lived in a ghetto in Hungary during WWII.  He emigrated first to what is now Israel
     and then to Australia after WW II.

When the diversification initiative began, "… markets were bullish, cash was available, deals were being done on an enormous scale."[14] Unfortunately, Westfield did not do any formal strategic planning.

Without formal strategic planning, it was concluded that "media" seemed like "an *attractive area for investment*." Based upon this notion, Westfield Capital entered the media industry in September 1986 by buying an 18% stake in Northern Star, a small regional company that wanted to grow. Also, when the Australian government proposed a law in November 1986 that would prohibit one company from owning both print and electronic media after June 1987, Frank Lowy, then Chairman of Westfield, and Northern Star/Westfield Capital purchased the television holdings of Rupert Murdoch's News Corporation's "Channel Ten" in Sydney and "Channel Ten" in Melbourne.

After Westfield acquired "Channel Ten," the acquisition's rationale was challenged by investment analysts. The question raised by analysts was simply and elegantly: "What's a shopping center developer doing in television?"[15] It was an interesting question. Later it was answered by Westfield's divestiture of its media properties after the firm experienced operational problems and significant financial losses. This occurred in an environment where there was also a global stock market crash (October 1987), which, in turn, caused a sharp drop in the market capitalization of Westfield Capital, as well as a collapse of media company share (stock) prices in Australia. In addition, Northern Star had reached an agreement in August 1987 to buy some additional media properties that were intended to help the television network have broader national coverage. Lowy had a reputation for "sticking with deals," and he was unwilling to pull out of the deal after the stock market crashed. To complete the deal, Northern Star had to take on debt that caused it to be over-leveraged.

Increasingly, it became apparent that Westfield's diversification was actually "*diworsification*." "Channel Ten" was becoming a virtual "Financial Vietnam," draining Westfield's capital and capable of leading to the firm's overall demise. At a scheduled financial review in January 1989, Frank Lowy recognized that he needed to extricate Westfield from "Channel Ten" in order to save the core shopping center business. As one author has stated, he had "finally realized that, in the light of the history of errors, the management [of Channel Ten] was incapable of turning the company around. The time had come for him to cut his losses and plan his exit."[16] Although it required a large personal investment to exit honorably, by summer of 1989, he acted decisively to make the break. He authorized the head of Westfield Capital to work out a plan for exiting the business and gave him a budget of $200 million to accomplish this. On September

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14. Margo (2000).
15. Margo (2000).
16. Margo (2000).

1, 1989, the exit was completed.[17] The crisis that had threated the demise of Westfield was over.

What were the leadership lessons learned by Lowy and Westfield from the diversification debacle? On October 24, 2007, Frank Lowy, Chairman of the Westfield Group addressed a group of the most senior leaders of Westfield at a dinner in Sydney, Australia in connection with a "graduation" from a "Leadership Development Program."[18] The dinner took place on Lowy's yacht in Sydney harbor. One of the authors was serving as co-Faculty Coordinator for this program and was in attendance at this dinner. He expected Lowy to talk about Westfield and its great strengths and promising future. However, he was astounded when Frank Lowy chose not to discuss the strengths of Westfield but to reflect back on the company's greatest moment of crisis.

Lowy reflected back on the lessons from Westfield's ill-fated acquisition of "Channel Ten" in Australia as a result of the attempted diversification into media business and the near bankruptcy that it caused. Lowy said that this experience was a great lesson in managing failure. At that dinner, he pointed out that not all business decisions result in success; some are inevitable failures. Lowy discussed what lessons he had learned in dealing with the problems of "Channel Ten" and identified the steps he had taken to address these problems.[19] Specifically, he identified the following play book to deal with a crisis:

1. **Never Bet the Company.** Westfield's experience with expansion diversification into media was a financial disaster. It almost resulted in the loss of the company. Unintentionally, the Lowy's had bet the company. He resolved never to do that again.

2. **Do Your "Homework."** A second lesson learned by Westfield and the Lowy family was the need for "extreme due diligence." Frank Lowy had always insisted on careful analysis of shopping center deals. But he had invested in the media business without his usual caution. In effect, Westfield had inadvertently abandoned one of their core competencies and "winning formula."

3. **Follow the Money.** Another lesson learned by the company concerned the financial performance of its investments. David Lowy, eldest son of Frank Lowy, summed up the learning this way: "The television episode was a milestone. The family learned a big but very simple lesson: in a business more money has to come in than goes out.

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17. Margo (2000).
18. Presentation by Frank Lowy to attendees of the UCLA-Australian Graduate School of Management "Westfield Executive Development Program," October 24, 2006, Sydney, Australia.
19. These steps are described in Flamholtz and Randle (2020).

> If more cash comes in than goes out over a defined period, you're okay. If that's not happening, you get out. It's as simple as that."[20]

Overall, Lowy's extraction of Westfield from the media business is an example of a successful leadership response to a crisis where the primary cause was inadequate strategic planning, perhaps laced with a do touch of managerial hubris. Since Westfield survived, it can be characterized as a "successful failure"![21]

### 2.3. The Crisis at Disney

Once upon a time, the "Magic Kingdom" of Walt Disney, one of the great entrepreneurial geniuses of the last century, could do no wrong. Disney had created an empire consisting of movies and theme parks. It influenced television as well as American and international culture with its proprietary characters, such as Mickey Mouse, Donald Duck, and Pluto.

Alas, all fairy tales must end, and Disney's seemed about to come to an ignominious finale in 1984. Walt Disney was gone beyond the Magic Kingdom, and the company had lost its way.

Walt Disney was a classic entrepreneur who had been larger than life. His successors were unable to create a new second act to the play he had written. They often wondered aloud: "What would Walt have done in this situation"? As a result, by the early 1980s, Disney was in crisis and on the brink of failure brought about by the lack of effective leadership. The company required a complete revitalization. Roy E. Disney, Walt's nephew and Roy O.'s son, led a shareholder revolt to bring in new creative leadership.

The solution to the crisis at Disney began with the arrival of a new leader, Michael Eisner, in 1984. When Michael Eisner assumed leadership of Disney, he was faced with a crisis brought about by a leadership vacuum that had persisted since the passing of the company's legendary founder, Walt Disney in 1966. Specifically, Eisner found a company, like many other entrepreneurships, that had been unable to replace its strong, entrepreneurial, creative, paternalistic, autocratic leader, and this was reflected in the company's financial performance. However, Eisner was able to step into the leadership vacuum left by Walt Disney.

The initiatives undertaken by Eisner to manage the crisis involved a transformation of the company and its culture. The specific initiatives were all

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20. Margo (2000).
21. The term "a successful failure" was used to characterize the miraculous safe return of the astronauts of Apollo 13 after a failed harrowing journey to the moon and back. See Jim Lovell and Jeffrey Kluger, *Lost Moon: The Perilous Voyage of Apollo 13,* for the story about the failed April 1970 Apollo 13 lunar landing mission which was commanded by astronaut Jim Lovell.

focused on revitalizing Disney reenergizing its entrepreneurial spirit, and positioning the company for future success, included:

- Changing Disney's business definition and corporate identity from a motion picture/theme park company to a global entertainment business.

- Recruiting new team members to supplement his management team, most notably Jeffrey Katzenberg, who had been head of production at Paramount.[22]

- Investing a great deal of money in revitalizing animation-based films – the product on which the company was originally built and that was, in many ways, synonymous with "Disney."

- Leveraging Disney's film library to become a force in video (and later in pay TV and streaming).

- Building upon the worldwide recognition of its Disney characters, moving aggressively to license merchandise.

- Opening Disney stores as a way of continuing to build the brand and sell its products.

- Working to create/enhance the synergy among all of Disney's operating units.

The results of the transformation led by Eisner to address Disney's crisis were impressive:

- The Walt Disney Company achieved revenues of more than $18 billion in 1996, with net income of $1.2 billion.

- In almost a decade (1987 to 1996), Disney's stock increased from a low of $10 a share to $63 at the end of 1996. By the end of 1997, it appreciated further to $99 a share, an increase of about 900% over the eleven-year period, for a truly "magical" return to shareholders.

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22. Under Katzenberg, cost effectiveness became the strategy for motion pictures. For example, Touchstone's first project under its new leader was *Down and Out in Beverly Hills,* which starred a group of "name" actors who were no longer "hot" (Richard Dreyfuss, Nick Nolte, and Bette Midler), and were therefore far less expensive than currently "superstar" actors. The film grossed $62 million at US box offices and cost only $13 million to produce.

- In addition, Eisner helped the revitalize Disney and create its "new" Mission, which is: "to entertain, inform and inspire people around the globe through the power of unparalleled storytelling, reflecting the iconic brands, creative minds and innovative technologies that make ours the world's premier entertainment company.[23]

The solution to the crisis facing Disney was well conceived and well executed. What makes is even more impressive is that his strategy provided the foundation for the continued development of Disney as a global entertainment company that continued so successfully under Eisner's hand-picked successor, Bob Iger. Specifically, for the year ending 2019, Disney achieved revenue of $70 billion (rounded) and net income from continuing operations of $11 billion (rounded).[24] These numbers are truly "magical" results from a platform created in response to crisis. This example of Disney under the leadership of Michael Eisner shows how a leader faced with a crisis can create the foundation for future success that subsequent leaders can build upon.


2.4. The Crisis at Chrysler

In the late 1970s, Chrysler was one of the largest industrial enterprises in the United States and the world. In 1978, it had more than $17 billion in sales and a market share of 13.6%. It was one of the Big Three U.S. automobile companies (along with Ford and General Motors), and it had a long and reasonably distinguished history.

Despite its size, its substantial resources, and even its storied tradition as one of the earliest and greatest automobile companies, in 1979 Chrysler was on the brink of failure precipitated by a "perfect storm" of external factors including an economic recession, spiraling interest rates, and the so-called "oil crisis." In addition, these factors were exacerbated by major internal weaknesses.

The company required a complete revitalization. Just like Eisner at Disney, Iacocca faced the dual problem of resolving the immediate crisis at Chrysler while simultaneously positioning it for the future.

The man tasked with solving this crisis was Lee Iacocca, who has been recruited to Chrysler from Ford in 1978, where he had been responsible for product development. Iacocca assumed the CEO position at Chrysler after his predecessor (David Riccardo) retired in September 1979.

Upon becoming CEO, Iacocca immediately began a transformation of the Company and its culture. His leadership initiatives were designed to simultaneously return Chrysler to immediate profitability while developing a "new" Chrysler that could thrive in the future. Iacocca recognized that the culture

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23. Walt Disney website (2020).
24. Walt Disney website (2020).

at Chrysler need to be changed. As our research has shown, culture and effective culture management can have a statistically significant impact on financial performance.[25] Shortly assuming leadership as the new CEO, Iacocca made a spectacular gesture of sacrifice by downgrading his salary to $1 a year. This was a critical step toward changing the "everything for me, nothing for Chrysler" culture that had previously existed.

Although there were several initiatives under his leadership, Iacocca correctly perceived that *cultural changes at Chrysler were the catalyst and prerequisite for the entire revitalization program he initiated.* Cooperation had to replace confrontation. Thus, the fiefdoms at Chrysler had to be dismantled and then a new organization rebuild in its place. In addition, the culture of focusing on "splitting the pie" had to change.

By reducing his own pay to $1 a year, Lee Iacocca had sent a powerful cultural message to all stakeholders – including employees, unions, and suppliers – on the need to sacrifice to preserve Chrysler. Another key cultural dimension that helped Iacocca at Chrysler was the "cult of strong leaders." Iacocca personally achieved the status of a "corporate savior" during this period. He was willingly followed and personified the nature of the transformation at Chrysler; he benefited from a culture that accepted and even revered strong leaders. A key aspect of Chrysler's culture was the willingness to follow the CEO and never question decisions. This culture preceded Iacocca and his predecessor, David Riccardo, and actually originated in the days of Walter Chrysler.[26] Iacocca also made changes in operational and management systems, including:

- Reorganizing by separating sales from manufacturing.

- Placing purchasing with manufacturing instead of engineering.

- Reducing the number of dealers.

- Improving quality through creation of joint UAW-Chrysler "quality" programs, as well as instituting Quality Control systems with suppliers.

- Instituting meaningful financial and managerial control systems.

Another of Iacocca's major steps in beginning to address the crisis and beginning to transform the company was to assemble a new senior management team. This enabled Iacocca to change the composition of Chrysler's management and its culture. The new leadership group operated as a team, but with each individual having specific responsibilities and objectives that would help the

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25. Flamholtz (2001) and Flamholtz and Randle (2009).
26. Walt Disney website.

company develop the infrastructure needed to operate effectively within its new environment.

The long-term goal of Iacocca's program (its strategic mission) was to become a low-cost producer through downsizing and better supplier relations.

By the mid-1980s, Chrysler had addressed the crisis and completed its corporate revitalization, and the results were significant:

- 1982 saw a return to profitability (from the gain on the sale of its defense subsidiary) after losing $3.3 billion since 1979. Unfortunately, continuing operations still experienced a loss.

- 1983 saw profits of $700.9 million with $301.9 million coming from continuing operations. Chrysler was now able to repay $1.2 billion in loans guaranteed a full seven years early, saving $392 million in interest and fees. Lenders swapped preferred stock for common stock, which strengthened Chrysler's capital base. Warrants held by the federal government were bought, eliminating the threat of stock value dilution.

- 1984 saw profits of $2.4 billion. Chrysler now reclaimed its position as one of the world's top fifty firms. Reflecting the return to financial health, dividend payments resumed and the firm bought back 20% of its outstanding common stock, increasing its share value. It also reduced its unfunded pension liability by two-thirds, and was able to get a revolving credit agreement of $1.1 billon with fifty-seven banks.

In 1978, when Lee Iacocca joined Chrysler, it was a step away from "Davy Jones' locker." However, on January 13, 1997, *Forbes* magazine declared Chrysler its "Company of the Year." As stated in the *Forbes* article:

"You want numbers to justify our calling Chrysler Company of the Year? It probably finished 1996 on the sunny side of $5 a share, on $60 billion in sales. The return on net sales is above 6% – fantastic for a metal bender…Chrysler's return on capital is 20% – again fantastic for a company in a capital-intensive business."

In brief, Iacocca resolved the dual problem of resolving the immediate crisis at Chrysler while simultaneously positioning it for the future. Iacocca's transformation at Chrysler was one of the most successful (if not ***the*** most successful) responses to crisis and resulting corporate revitalizations in U.S. history. Although it has some unique aspect as do all crises, it is virtually a "text-book case" of how to lead a company through a crisis.

The ultimate result was that crisis was over and there was a "new" Chrysler. The new Chrysler was able to operate profitably for many years until other lesser leaders again allowed it to drift into yet another crisis.


2.5. The Crisis at American Express

American Express (AMEX) was founded in 1850 as an express mail business and has evolved into a global financial services firm. When Harvey Golub assumed leadership of American Express in 1991, he was faced with a crisis brought about by both external and internal challenges.[27] The immediate crisis was attributable to competition. However, internal issues of structure, culture, and operations set it up for crisis and exacerbated its problems.

The key problems leading to the crisis at AMEX were:[28]

- Loss of market share to other "card companies" such as MasterCard and VISA (who were able to offer lower prices to customers because they had a lower cost structure).

- "Distractions" created by American Express working to become a "financial supermarket" (that, beginning in 1981, led the company to purchase brokerage and financial advisory firms),[29] versus focusing on its core card business. This strategy of diversifying into a "financial supermarket," was established by AMEX's former CEO, James Robinson.

- No clear strategic direction for American Express as a whole because the company was operating as a holding company comprised of independent business units, each operating in their own silo.[30]

- The classic "cost duplication problem" of a divisional organizational structure, because each business unit [e.g., brokerage, Travel Related Services (cards, traveler's checks, etc.)] operated autonomously with its own management structure and system, which therefore duplicated some functions of each other division.[31] The company, was, in fact described as comprised of fiefdoms.[32]

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27. March (1996).
28. March (1996).
29. Quelch and Labatt (2011).
30. March (1996).
31. This is a classic feature of divisional structures, as explained in Flamholtz and Randle (2016).
32. March (1996).

- An organizational culture that was described as "arrogant and complacent"[33] that, among other things, had led the company to reject the opportunity to partner with American Airlines on their American AAdvantage card. The culture also promoted the idea that management decisions could not be challenged.

- Decreasing revenue brought about because the number of active American Express cards was decreasing.

- Problems with accounts receivables – approximately 11% of its receivables had to be written off as bad debts, which, in term created cash problems.

Just like Iacocca at Chrysler and Eisner at Disney, Golub faced the dual problem of resolving the immediate crisis at American Express while simultaneously positioning it for the future.

The key leadership initiatives taken by Golub to address these twin problems were:

1. fixing the immediate financial problems of lack of competitiveness by reducing operating costs (a stated objective),

2. changing the culture and way that American Express operated, and

3. changing the vision or focus of American Express from the concept of a "financial supermarket" to a brand-centric business (a stated objective).

While the process took several years, the initiatives undertaken by Golub and his team had a significant impact on the company's bottom line:

- Although revenues remained essentially flat at about $8 billion from 1992-1994, net income increased from $461 million in 1992 to $1.43 billion in 1994.

- Earnings per share increased from $0.88 in 1992 to $2.75 in 1994.

- A final indication of the success of the response to the crisis was a significant investment by legendary investor, Warren Buffett, who purchased 49 million shares (10 % of the company) for about $2.2 million dollars.

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33. March (1996).

The bottom line is that Golub was successful in resolving the crisis at American Express while simultaneously positioning it for the future. Consequently, American Express is a financially successful global provider of financial services with a powerful brand.

## 2.6. The "Perpetual" Crisis Sears

Sears, Roebuck & Co. ("Sears") was founded in 1893. It was a department store chain. Once upon a time, Sears, was, in the company's own catch phrase, "where America shopped." Today, Sears is where Americans *used to shop*.

Sears is a company that has been in virtually perpetual crisis for many decades, under different leaders. Accordingly, it actually comprises at least three cases of leadership of crisis, not a single case. The primary underlying cause of the initial crisis was competition from a new type of competitor (discount stores), or what today would be referred to as "disruptive competition."

The story of Sears simultaneously demonstrates the best and worst of leadership in a crisis. Specifically, what makes the story of Sears so extraordinary is that it was a company that *actually transformed itself successfully*, and then *reversed course and dismantled what it had created* to return to a failed strategy which ultimately led to its decline and virtual failure as a business.

Sears denouement began in the 1970s, when the growing strength of discounters (K-Mart and Wal-Mart) began taking away customers and market share. In response, the merchandising group developed the "wrong" strategy, which focused on upgrading the image of Sears' stores and ignored the competitive threat from discounters. For customers "money (saved) talks," and so they walked – away from Sears to Kmart, Walmart, and other discounters. In essence, the group attempted to address the crisis by creating a new vision for and of the company's stores, but failed to consider how this new vision would "fit" in the customers the firm served. Sears had decisively lost "the Battle of Discounters," but then another leader emerged with a different vison and strategy.

In the early 1980s, Sears (under the leadership of Edward Telling) recognized that their "crisis" of declining revenue in their stores was continuing and that they had lost the strategic battle for their core customers to Kmart and Walmart. In response, the company developed what was truly a brilliant strategy that had its foundation in a major transformation in the nature of Sears and the business it was in.

Based on its reading of the future environment in which it would operate, Sears' vision was to transform itself from a *consumer goods retailer* into a *consumer products and services enterprise*. The vision was to utilize Sears' name recognition, store locations, and customer base, and trusted brand as a core focus for distributing other types of "products," particularly financial services products. In a sense (although the company did not explicitly articulate it this way), Sears'

vision was to virtually transform itself from a consumer products retailer into a diversified financial services company, which happened to own a retail merchandise division. When the transformation process began, Sears already owned Allstate Insurance. This was, in fact, an entrepreneurial or intrapreneurial venture.

As part of the process of implementing this new vision, Sears acquired Coldwell Banker, then one of the leading residential and commercial real estate firms. In addition, Sears acquired Dean Witter, a retail stock brokerage company. Sears also introduced the Discover credit card to compete against VISA and MasterCard, and to try to bind customers to Sears.

The net result of these changes was to create "the Sears Financial Network." These business units of Sears existed alongside the retail merchandising system.

The results of Telling's leadership initiatives in managing the continuing crisis were striking:

- Although the revenues of the merchandise group increased every year, net income from the group's operations began to decline in 1985 from a peak of $905 million to a low of $257 million in 1990, before rising to $486 million in 1991. Net income in 1991 was only 54% of what it had been in 1984!

- In contrast, net income from the financial services business increased quite steadily (except for 1990) throughout this period from $701 million in 1984 to more than $1.1 billion in 1991.[34]

- The combined net income of Dean Witter and Coldwell Banker (excluding Allstate) exceeded that of the merchandise group in 1990 and was 84% of the net income of the merchandise group in 1991, even though the revenues of the merchandise group were huge in comparison to these other businesses.

Although the merchandising business continued in decline, the financial services businesses were growing and profitable. The transformation of Sears from a consumer products retailer to a diversified financial services and consumer products business was bold in concept, and in fact had succeeded.

Unfortunately, at its core, Sears still thought of itself as a merchant rather than a consumer products and services company, and its retail merchandise people still occupied most of its leadership positions. The transformation had been created under Edward R. Telling, who was now retired. Telling's one serious leadership omission was that he did *not* change the culture at Sears to support the strategic

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34. It must be noted that the lion's share of net income was attributable to the Allstate Insurance Group. Net income from Dean Witter was uneven during this period, and losses were incurred in three of the seven years. Coldwell Banker was profitable in all seven years, though net income did fluctuate.

vision change. There was, in fact, an internal civil war at Sears, with the retail culture at "war" with the "new Sears." This omission, sadly,  was to prove the Achilles' heel of Telling's otherwise brilliant leadership response to Sears' crisis.

The next leader at Sears, Edward A. Brennan, (who had replaced Telling as Chairman and CEO) now *dismantled the diversified financial services and consumer products business* and transformed what was an extraordinary success into defeat!   Specifically, Brennan, was a traditional "retail store guy."  His roots were with what Sears had been in its glory days, not what it had become.  It was clear that if current trends continued, the merchandise unit of Sears was destined for a period of long, slow decline,  and this was  simply not acceptable to those who still viewed the company's business as a "retailer."

In 1992, Sears (under Brennan's "leadership") underwent, in the words of the company itself, "sweeping changes," with the goal of shaping a stronger company and enhancing shareholder value.  Sears announced that it would concentrate on its core retailing business.  It sold Dean Witter (its brokerage subsidiary). It  also sold its Discover Credit Card business, as well as Coldwell Banker (its real estate operation).  It also planned to sell a portion of Allstate Insurance, as well as certain other  nonretail  units.  These  decisions  dismantled  Telling's  ingenious entrepreneurial vison to recreate Sears and would contribute to the company remaining in a state of perpetual crisis for the coming 30-plus years!

The dismantling of this transformation marked the end of the internal civil war at Sears, which began with the inception of Telling's new vision for Sears.  It also marked the end of one of the most ambitious transformation initiatives ever undertaken.   Finally, it was the beginning of Sears becoming a "Corporate Zombie." There is a great deal more to the story of the continued denouement of Sears; however, it is beyond scope of the current article, and is examined in detail in Flamholtz and Randle (2020).

In brief, in 2020 Sears had a stock price of about $19 *cents* per share.[35] The bottom line is that Sears, the once great American retail icon (where Americans *used to shop)* is now sadly an object lesson of crisis leadership failure, with the fleeting success of Telling' s transformation embedded within the larger story of ultimate failure.


2.7. The Crisis at Eastman-Kodak

Once upon a time, Eastman Kodak ("Kodak"), one of the great entrepreneurial successes of the last century, could do no wrong.  Kodak was photography and photography was Kodak. By the 1980s, Kodak had achieved more than $10 billion in revenue and was the global leader in film and photography.  But, over the next three decades, Kodak went into decline that culminated in the company

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filing for Chapter 11 bankruptcy protection on January 19, 2012 after having lost $1.76 billion over the proceeding 3 years. Today, Kodak is an object lesson in perpetual leadership failure as will be described below.

The underlying initial cause of Kodak's denouement was a combination of increased eternal competition and an internal culture that inhibited the innovation that had made the company great. In the 1970s, while still the leader in the film market, Kodak's market share dwindled with the onslaught of competition from Fuji and discount film manufacturers in the 1970s. Kodak also saw its market share in cameras shrivel. More ominous was the threat from digital imaging technology that was destined to make film photography obsolete. Kodak actually should have been a leader such as digital photography, where in fact it had an early patent. The Kodak engineer (Steve Sasson) who invented the first digital camera in 1975 reported that the corporate response to his invention was: "That's cute – *but don't tell anyone about it.*"[36]  By the time Kodak actually committed to Digital photpgraphy, Sony (who introduced the first digital camera for consumers in 1982) had already established themselves as "leader" in the market.

Kodak had been an extraordinarily successful and innovative company for a very long time. Unfortunately, its own success ultimately contributed to its decline. Specifically, Kodak's success led to a culture that began to expect continued success as an entitlement, or what the ancient Greeks referred to as *hubris*. It also led to a belief that the company "should avoid hasty action." Kodak proceeded cautiously and watched competitors develop new products and pioneer new market segments that were natural extensions of its own core business. Specifically, Kodak *avoided* "acting hastily" while competitors developed instant photography (Polaroid), 35-mm cameras (Canon, et al.), VCRs (various Japanese companies), and digital cameras.

In 1984, Colby Chandler, then Chairman, recognized that Kodak was a company in crisis brought about by competition and the threat of new technologies making its core products "obsolete." He embarked on a program to address the crisis and revitalize the company. Although the need for revitalization from a crisis was perceived correctly, the process of transformation actually undertaken was poorly conceived and ultimately led to its failure.

Chandler began the revitalization process by engaging a consultant to review Kodak's management structure. This was based on the assumption (either explicit or implicit) that Kodak's problems were internal and related to its inability to diversify. This was, at least in part, narrowly correct. Kodak's management system had in fact contributed to the failure to develop new products. Specifically, the company was organized into a functional structure for its core business – photography. A classic limitation of the functional form of organizations is that it tends to inhibit, rather than facilitate, the development of new products.[37]

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36.  Mui (2012).
37.  Flamholtz and Randle (2016).

Unfortunately, Kodak's difficulties in new product development were a *symptom* of its decline and not the core problem to be solved. The real problem was that Kodak and Chandler did not ever articulate an appropriate "new" vision for what Kodak was to become; but, instead based their revitalization on a strategy of diversification.

The company's strategy was to diversity into areas based on Kodak's "core competencies." Since it was essentially a photography business, the company had to have competencies in three key areas: (1) optics, (2) chemistry, and (3) electronics. As part of the strategy of revitalization through diversification, Kodak made several acquisitions. The largest acquisition was Sterling Drugs, which was intended to complement the development of pharmaceutical products to be leveraged from Kodak's core competency in chemistry. Kodak also acquired a number of start-up firms. It entered a variety of markets, including the videotape, floppy disk, and alkaline and lithium battery markets. It also entered the instant photography market with its own product line, but was sued by Polaroid for patent infringement.

To support the company's growth and diversification, Kodak restructured and formed seventeen autonomous business units, largely within two segments of its business (imaging and information). Business unit managers were encouraged to act "entrepreneurially" and compete aggressively – not only for new business but for the company's finite resources. Although initial results were promising, the costs of this type of "helter-skelter growth strategy" and decentralized form of organization would become increasingly apparent. The bottom line was that Kodak's attempt to address the crisis and revitalize the business under Colby Chandler was simply not successful.

While the company did transform from a photographic business into a conglomerate with four business segments – (1) imaging, (2) information, (3) chemicals, and (4) health. However, after almost a decade of revitalization through diversification, Kodak did not achieve the steadily increasing revenues and earnings stability required by a "growth" company, such as Procter & Gamble, Johnson & Johnson, or PepsiCo. Faced with these results, Kodak made another significant change in its strategic direction and organizational structure.

Beginning in 1992, under the new leadership of Kay Whitmore, Kodak company embarked on a second attempt to resolve its continuing decline. Specifically, it redefined its business concept or business foundation and refocused on its core business of imaging. As CEO Whitmore stated, "Our principal business, we concluded, was in images and not in every form of imaging. Recording, storing images, transmitting images and delivering image outputs – this is our competitive advantage."[38] Accordingly, Kodak sold a number of businesses that Chandler had created or purchased, which o it now described as "peripheral businesses." The company used the proceeds to reduce

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38. Kay R. Whitmore, Management Overview, *Eastman Kodak Company 1991 Annual Report,* p. 2.

its debt as well as fund a renewed emphasis on research and development in image-related technology.  In addition, the company spun off its chemical business as "Eastman Chemical Company" by distributing shares to its stockholders.

The "new" strategy, while appearing sound, did not solve the issue that had plagued Kodak for some time – its financial performance.  Kodak's cost structure was high, compared to the competition and this was especially true in terms of those that related to research and development.[39]  In August 1993, Whitmore was fired.

On October 28, 1993, George M. C. Fisher, who had led a revitalization at Motorola Inc., became the new CEO and leader of Kodak. he began the third attempt to resolve the continuing crisis.  During 1994, Kodak sold several non-imaging health businesses (including its clinical diagnostic business, the pharmaceutical and consumer health businesses of Sterling Winthrop Inc., and others) and refocused on imaging.

Under Fisher's leadership, Kodak avoided the mistake made by others (notably Sears discussed above and UAL as discussed below) and committed irrevocably to a vision. As Fisher stated: "By focusing only on this business (imaging), our people now say: 'well they (management) must believe. They're putting all their eggs in one basket'."[40]

The company had finally achieved a coherent, integrated business focus on imaging as its core business and abandoned the "portfolio" approach adopted under Colby Chandler in the 1980s.

The initial results were promising. Kodak's stock hit an all-time high of $94.38 in 1997.  In 2000, Kodak had total revenues of $14 billion and net income of $1.4 billion.[41]  Nevertheless, in  2003, it continued to be a "troubled business" that needed to be transformed.[42]  By that time,  however, Kodak had frittered away its resources and its leading market position, allowing the emergence of competitors in areas where Kodak could have and should have been a leader.

In yet the next phase of addressing the perpetual crisis, Kodak went through multiple restructurings and lay-offs under the leadership of  CEO Antonio M. Perez (from 2003 to 2012).  It also began an attempt to generate revenues by aggressive patent litigation.

Nevertheless, its denouement continued, until in January 2012  it filed for Chapter 11 Bankruptcy protection.  The final ignominious blow to the company came in January 2013 when Kodak sold many of its patents to a group of companies that included Apple, Google, and Facebook for $525 million.  The pioneer and leader in photography was a now little more than a holding company for the once great company's intellectual property.

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39.   Moore (2010).
40.   *Forbes,* January 13, 1997.
41.   Gilson, Dionne and Abbott (2017).
42.   Gilson, Dionne and Abbott (2017).

As of 2020, the company now describes itself as "a global technology focused on print and advanced materials & chemicals."[43]   Unfortunately, a less kindly description would be that it has become a Corporate Zombie, a sad victim of  a series of four phases of  crisis leadership failures that began in the early 1980s.

## 2.8. The Crisis of Navistar

Navistar was "born" from the remains and ashes of International Harvester (Harvester"). Harvester was founded in 1831 by Cyrus McCormick as a company that manufactured and distributed agricultural farm implements. Over the next 100 years, Harvester transformed itself into a company that not only produced farm equipment, but into one that had become the United States' top producer of trucks for both farm and non-farm use.

Harvester was at the apex of its strength after World War II.  By 1950, International Harvester had sales of almost $1 billion and employed about 90,000 people.  From this apex position of strength, Harvester began a long slow decline precipitated by mismanagement. Specifically, a number of management problems led to its decline including a poorly conceived and ultimately abandoned strategy, of diversification into the home appliance industry, failure to focus on its core agricultural business to maintain its competitiveness, a culture hostile to labor relations management that led to a number of strikes, and a lack of management sophistication appropriate to the size, scope, and complexity of International Harvester's business (the company had no long term planning, no job descriptions, and under developed management systems)."Stated differently, it failed to make the transition for an entrepreneurship to an entrepreneurially oriented professionally managed firm.[44]

That ultimately became a full-blown crisis in the early 1980s when the company found itself on the brink of bankruptcy.   In 1986 to avoid bankruptcy, Harvester divested virtually all of its business units except for trucks, and renamed the company "Navistar." The Navistar name was intended to symbolize the company's metamorphosis from the former International Harvester to something "new and different."

Although Navistar was initially the market leader in trucks, it too continued the downward spiral to yet another crisis.  In this article, we will focus on the crises of Navistar rather than those of the parent company Harvester.

The seeds to the crisis faced by Navistar were in its organizational DNA. Specifically, the predecessor company Harvester had transformed itself by narrowing its focus to the business components with the greatest chance of long-time survival and profitability: heavy-duty and medium trucks, buses, and diesel engines.  Unfortunately, for "the new" company – Navistar – the problems were

43.   www.kodak.com
44.   Flamholtz and Randle (2009).

not over.  Although the company had sold the farm and construction businesses, Navistar inherited (retained) the post-retirement benefits and pension liabilities of the former employees of those  former divisions. These "legacy costs" comprised a ticking "time-bomb" that ultimately led to a" crisis for Navistar in the late 1980s and early 1990s.

In the late 1980s, John Horne became the President and Chief Operating Officer of Navistar.  Horne, who had an engineering background, had been the head of the company's Engine Division.  He was selected by James Cotting, who was Chairman and CEO of Navistar.  Cotting, who had a strong financial background, became "Mr. Outside" and dealt with the banks and Wall Street; Horne, who had an operations background, became "Mr. Inside."[45]

At the time, Navistar was facing three key problems that were leading to a crisis situation.  One concerned its "legacy costs," the pension and health care costs associated with its former employees from the Agriculture and Construction Divisions.  The second problem involved the costs of benefits for active workers. The third was that, as had been true in the early 1970s when McCormick assumed the role of company leader, the company had obsolete management processes and structures (obsolete "infrastructure").  The first problem was addressed by a strategy of getting retired employees and unions to accept reduced pension and health care benefits in return for shares of Navistar's common stock.  This plan called for reducing Navistar's total liability for post-retirement benefits from $2.1 billion to $1 billion in return for an equity share in the company financed by additional stock.[46] The second problem was intended to be addressed as a biproduct of the restructuring of operations and rebuilding infrastructure (the third problem) that would presumably lead to greater profitability.

Under the leadership of John Horne, building the infrastructure needed to support the "new" Navistar, involved:

- Restructuring the company's truck operations into three business units – heavy truck, medium truck, and bus.  There was also a unit focused on engines and another on finance.  Each unit functioned as a division and had a unit leader who was responsible for driving results (including financial performance).

- Implementing a new "divisional" strategic planning process.  The leadership team of each truck division (heavy truck, medium truck, and bus) was responsible for developing a plan for their business that identified what they were going to do to maximize results (including financial performance).  These plans were presented to John Horne and Navistar's executive team for approval.

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45.  The authors worked as consultants with Navistar during this period.
46.  Slutsker (1993).

- Developing and implementing a customized leadership development program for all company and divisional leaders – starting with Navistar's executive team (including John Horne). The purpose of the program was to help equip leaders with the skills and tools that they would need to successfully execute their roles within the company that Navistar had and wanted to become.

Taken together, the major initiatives to address the crisis of decline at Navistar resulted in the first signs of a turnaround. One specific bottom-line result was that in 1993 Navistar achieved a net profit for the first time in many years. Also, by 1993, some investment analysts had actually begun to express favorable opinions on the company's stock.

It might be too much to ask that as the result of the efforts to address the crises that the company faced in the 20th Century that Navistar would have been positioned well for the 21st Century and beyond. The company, in fact, did benefit from the work done in the mid-1990s and experienced a period of strong financial performance. The company's revenues had grown to $8.6 billion and, in December 1999, John Horne, then president and chief executive officer noted that 1999 operating income (of $544 million) was "up from $634 million in 1998 and better than the previous record of $827 million achieved in 1979."[47] Clearly the crisis of decline in seemed to have been addressed.

Unfortunately, Navistar was to facet yet another crisis during the decade just after the start of the new Millennium. That crisis resulted from an ill-fated "bet the company" leadership decision on a new type of engine that cost the company millions of dollars and over half its market share as well as from problems brought about by the cyclical nature of Navistar's market. That crisis is, however, beyond the scope of this article.

## 2.9. The Crisis at UAL/Allegis

The nature of the leadership failure at United Airlines (UAL) is different from several others described above, but it is similar to the crisis that eventually led to the final denouement at Sears. Specifically, the crisis came as a result of the CEO's having already executed a vison change for the business without creating a concomitant cultural change of "buy-in" of a key consistency within the airline, who then actively resisted the change and ultimately caused it to be reversed. The lessons of this leadership failure are very important because they echo those seen previously in the case of Sears, and serve as a warning to leaders about the need to change culture and get buy-in to their proposed business transformation processes

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47. Navistar Press Release, "Navistar Reports New-Record Results for Fiscal 1999: Sees Continued Strong Performance in 2000," 12/02/1999.

The seed or catalyst for the crisis occurred in the mid-1980s, as the outgrowth of a vison change at UAL, Inc. under the leadership of Richard Ferris. Specifically, Ferris had the strategic vision of making a transformation at UAL *from an airline* to a *diversified travel company*. Ferris believed that airline travel would become increasingly commoditized, and that he could use the airline as the core of a new kind of company, a diversified travel services company. Accordingly, customers would book their trips at a UAL travel services company, fly on UAL planes, rent UAL cars, and stay at UAL hotels.

Consistent with this vision, the company acquired Hilton International Hotels and Hertz car rental. It also acquired the company that came to be known as Mileage Plus; and set up Apollo Travel Services (which was later called Covia) and United Vacations. It already owned Westin Hotels.

From a technical standpoint, the vision articulated by Ferris was actually accomplished. UAL was no longer just an airline; it became a diversified travel company. Customers now could plan their travel with Apollo Travel, fly on a United plane, drive in a Hertz car, and stay at one of the hotels owned by the company (either Westin Hotels or Hilton International Hotels). In addition, the customer would receive "credit" for travel in miles from Mileage Plus, and these miles could be redeemed for future travel. Ferris' vision was actually executed and was a "done deal." The company even changed its name from UAL to Allegis Corp. to symbolize the transformation. His vision put UAL at the forefront of this type of business concept for his industry. Unfortunately, all was not well in "Allegisland." One of the key groups of employees of the former UAL did not buy into Ferris's vision. Specifically, the pilots at UAL never supported it, largely because, to partially fund his vision, Ferris treated the airline as a "cash cow."

Money was reallocated from the airline to fund the internal development of Apollo and the acquisitions of Mileage Plus and Hilton International Hotels.[48] The pilots were very unhappy with this and spearheaded a potential buyout of the company. That, in turn, led to a great deal of internal turmoil at Allegis. In turn, it also caused consternation on Wall Street, which led to Allegis' stock price being dragged down.

In a little over a year later, UAL changed its name from Allegis back to United Airlines and eventually sold all non-airline businesses. Ultimately, all of this turmoil led to Ferris's "resignation."

We should not infer that Ferris's vision for UAL was unsound, or even that the vision *per se* was unsuccessful in terms of the company's performance and stock price. In reviewing the financial performance of the components of UAL-Allegis for the period from 1985 to 1987, it is clear that Ferris's strategy was successful in financial terms.[49] Specifically, UAL, Inc. was unprofitable in both

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48. It was argued that UAL overpaid for these acquisitions. However, they were later sold for prices higher than their purchase price, invalidating the spurious argument that UAL had overpaid for them.

1985 and 1986, while both subsidiaries (Hertz and the hotel chains) were profitable both years.[50] The UAL, Inc. 1987 annual report does not break out the profitability of Hertz Corporation and the hotels because it lumps them together as "discontinued operations." However, the report does indicate the earnings from discontinued operations amounted to $68.8 million in 1987, while the company showed a loss from continuing operations of $4.2 million.[51] Clearly, at least for the period when the transformation occurred, the financial performance of the travel services company concept was superior to the performance of UAL, Inc. as an airline business.

In brief, the operation was successful, but the patient died! Although the transformation was successful, the "patient" rejected the transformation and caused a reversion to the original situation. Ferris lacked focus on the cultural dimension of strategic-organizational change. He simply did not get people to buy into the vision change. The bottom line is that the ultimate leadership failure was the failure to manage the culture of the company to avoid not just resistance to change, but rejection of change. This was the same phenomenon as at Sears and from the same cause.

### 3. Findings from the Set of Crises Studied

This section steps back from the summaries of the crises experienced by each of the companies and uses that "data" to address the overarching question of "what are our findings from the set of cases of leadership in crises presented above"? Stated differently, in this section, we will examine the various crises from several different perspectives, "data cuts," and specific questions:

1. What was the nature of the crises encountered by the various firms?

2. What are the underlying causes of the crises encountered by the various firms?

3. What are the findings from the set of entrepreneurial companies which experienced crises?

4. What are the findings from the set of established companies which experienced crises?

5. Are the findings from entrepreneurial companies the same or different from the set of established companies which experienced crises?

49. Flamholtz and Randle (2020).
50. *Allegis Corporation 1987 Annual Report.*
51. *UAL, Inc 1986 Annual Report,* p. 1.

6. Are there a set of organizational characteristics or preconditions of "susceptibility to a crisis?

7. What are the lessons to be derived from successful leadership of a crisis? and

8. What are the lessons or insight to be derived about unsuccessful leadership of a crisis?

The first three questions were not addressed in the original book. They are included here because of their relevance to readers of *IRE,* and because of their relevance to future research.

## 3.1. Type of Crises Encountered

What was the nature of the crises encountered by the various firms? Were the crises encountered the same of all firms or did they tend to differ by type of firm (entrepreneurial companies and established companies)?

Based upon our examination we identified two different type of crises, which are differentiated by the speed with which they occurred. We have termed them "Tsunami" and "Stealth Crises" based on the lead time they require for the crisis to become apparent.

Like an ocean Tsunami, a "Tsunami crisis" appears quite suddenly and, in most cases, is caused by an "unexpected" major environmental event like a sudden economic downturn or the Covid-19 virus. These can also be referred as "Black Swan events," because they are (like Black Swans) relatively rare. However, we prefer the notion of a Tsunami Crisis because it has the connotation of sudden threat and danger as opposed to the more benign connotation of a Swan.[52]

A "Stealth Crises" has typically been, in a very real sense, "brewing" virtually unnoticed for some time. It is analogous to an infection that has been in the body, but that has remained undiagnosed for months or even years: Occasionally the individual might experience symptoms that indicated there is a problem, but they "go away" and the problem is forgotten until it emerges again. At some point, the disease resulting from the infection becomes severe enough (and sometimes even life threatening) and it is at that point that decisive action needs to be taken to finally rid the body of the source of infection. The underlying cause of a stealth crisis can be gradual changes in the organization's environment like gradual changes in customer preferences or changes in the competitive landscape. The cause can also be the organization's lack of attention to

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52. The notion of a Black Swan event refers to the frequency of the crisis. Our notion of "Tsunami Crises," and "Stealth Crises" refer to the time it takes the crisis to appear.

developing and implementing the systems and structure needed to effectively operate the business as it grows. Declining financial results – sometimes resulting in bankruptcy – is typically the "symptom" that results in leadership needing to take action to identify and rid the organization of the "disease."

In our examination of examples of organizations that have faced crises we will see that some of these crises were "Tsunami Crises" caused by sudden external crises in the economy. Others were "Stealth Crises" caused by the inability of companies to respond effectively to more gradual changes in the competitive environment. Still others were caused by poor management or faulty decision-making.

## 3.2. The Underlying Causes of Crises

What were the underlying causes of the crises encountered by the various firms? As seen in our examination of the sample of  firms that experienced crises, the underlying cause of a crisis can be external, internal, or both. For several firms, the primary underlying was precipitated or triggered by an external problem, including economic disruption and/or competition. In addition, poorly a dysfunctional or poorly managed company culture, underdeveloped systems and processes, and ineffective planning or plan execution are all examples of factors that can cause a crisis.

## 3.3. Findings from Entrepreneurial Companies Experiencing Crises

The three entrepreneurial companies that experienced crises were: Osborne Computer, Disney, and Westfield. Two of the three survived and prospered (Disney, and Westfield), while Osborne Computer experienced bankruptcy and failed.

What can be learned about the nature of the crisis experienced, and the leadership that lead to success or failure?  In all three cases of  entrepreneurial companies the underlying *primary* cause of the crisis was internal rather than external:

- Osborne: Failure to manage the company's rapid growth effectively.

- Disney: A leadership vacuum since the passing of the company's founder, Walt Disney.

- Westfield: Naïve diversification into business not part of the company's core of competence exacerbated by external factors.

However, the crisis at Westfield was internally generated by poor planning, but was exacerbated by the external factor of the decline of the stock market and the additional pressure it put on financial resources. In the case of Osborne and Westfield, the crisis was a Tsunami crisis that appeared quite quickly, while in the case of Disney it was a stealth crisis. Nevertheless, Osborne's failure was ultimately due to its internal weaknesses, precipitated by external factors.

In all three cases of entrepreneurial companies, there was a single crisis experienced, and leadership was the determining factor in the success (survival) or failure of the enterprise.

## 3.4. Findings from Established Companies Which Experienced Crises

The examples of crises precipitated *primarily or initially* by external factors such as economic turmoil and competition, included American Express, Chrysler, and Sears, all of which were established companies. The crisis at Eastman-Kodak was initially precipitated *initially* by external factors (competition) and later enhanced by internal factors (cultural rigidity that inhibited innovation and risk-taking).

The crisis at UAL (Allegis) was precipitated by an external factor as the result of an internal strategic decision to redefine the firm's business concept (from an airline company to a diversified travel company) combined with a culture that resisted this change.

In this study, Navistar has been classified as an established company. However, in a sense, Navistar can be viewed as a hybrid or cross between an entrepreneurial and an established company. Its original "parent" was clearly an established company, but the offspring had characteristics of both and entrepreneurial and established companies.

In brief, Navistar's crises were from internal problems. The original problems were derived from its inheritance of the "legacy costs" from, the predecessor company. Later these problems were exacerbated by the decision to "bet the company" on a new type of engine. That type of "bet the company" leadership decision is probably most likely characteristic of entrepreneurial companies than established companies.

In all of these cases, there was clearly an element of a stealth crisis, or gradual dénouement over time, However, the precipitating event or tipping point came as a result of competition, clearly an external factor.

Three cases of the established companies experienced multiple or perpetual crises, including Sears, Kodak, and Navistar. These multiple or perpetual crises tended to continue for *decades,* and typically involved one leader after another in what was virtually a version of "musical leadership chairs." What characterized these three companies in particular was the failure to resolve the root cause of the original crisis. At Sears, it was the "obsolescence" of its original business model

due to disruptive competition and the inability of its culture to embrace change. At Kodak, it was similarly the inability of the company to respond to change because of the rigidity of its culture. At Navistar, the "solution" to the original crisis at International Harvester left a "time bomb" in place in the form of the heavy burden of legacy costs of the former entity. This, in turn, led to a leadership decision to embrace a new type of engine that put the entire company at risk.

## 3.5. Differences (if any) Between Entrepreneurial and Established Companies

Based on our analysis of the companies experiencing crises, the key differences between Entrepreneurial and Established Companies identified are:

1. The initial cause of the crisis in all three of the entrepreneurial companies was primarily internal (ineffective leadership), while the *precipitating* causes of crises in the established companies was typically external (competition and market change).

2. However, crises in virtually all of the established companies' internal problems (typically culture) contributed to or exacerbated the crisis.

## 3.6. Organizational "Susceptibility to a Crisis"

Based upon our analysis of the companies cited above, we have formulated a construct that we term **"susceptibility to a crisis"** and have identified what we believe are classic symptoms of "susceptibility to a crisis." Specifically, organizations apparat to have different levels of susceptibility to crises and there also appear to be ten preconditions for "susceptibility to a crisis." Stated differently, based upon our research analysis, weaknesses in a company's culture, strategy, and/or operations can create the preconditions for "susceptibility to a crisis." These "preconditions for susceptibility to a crisis" are characteristics or traits that leave an organization vulnerable to a crisis and, when the company does experience a crisis these symptoms put the company at greater risk. Although the characteristics comprise a propensity toward crisis, often the crisis itself can be precipitated by an external event or set of causes.

More specifically, just as an individual might have preconditions for susceptibility to a disease, companies can also have preconditions that make them susceptible to a crisis. Osborne Westfield, Chrysler, American Express, Sears, and Kodak all had serious internal problems or weaknesses that made them *susceptible* to a crisis. However, the crisis in each case was precipitated by external factors. In the case of Chrysler, it was an oil crisis. In the cases of Kodak, Sears, and American Express the precipitating factor was competition from other

companies. In the case of Osborne, the crisis was precipitated by a slowdown in orders and cash flow that exacerbated all its other internal problems. In the case of Westfield. The crisis caused by the acquisition of Media companies was intensified by the global stock market decline.

Stated differently, when the external environment is favorable, internal problems can be tolerated or masked. However, when the environment turns unfavorable, companies face a dual problem involving not only environmental stress but also internal weaknesses that crease susceptibility to a crisis. This can be a lethal combination, as at Osborne virtually immediately and at Kodak, Sears, and Intranational Harvester/Navistar over time. A set of ten specific characteristics of organizations that create susceptibility to a crisis are identified below.

## 3.7. Specific Organizational Characteristics or Preconditions of "Susceptibility to a Crisis

Based upon our analysis of companies included in our sample, we have identified ten specific characteristics of organizations that create susceptibility to a crisis:

1. Rigid corporate identity that prevents required change.

2. Corporate culture is dysfunctional.

3. Company culture is characterized by arrogance and hubris (feeling of "invincibility").

4. Company leadership does not have the "right stuff."

5. Losing sight of or ignoring competitive threats.

6. Poor planning – including inadequate assessment of the market and the company's capabilities and/or responding to the short-term versus planning for the long-term.

7. A dysfunctional (siloed or inappropriate) organizational structure.

8. Internal systems and processes ("infrastructure") that are no longer effective or efficient (or that don't support the size that the company has become).

9. Innovation without implementation.

10. Poor or declining performance – including lack of revenue growth, lack of profit, and declining market share.

These ten organizational characteristics can be viewed as the "underlying causes" of a crisis. They are, accordingly, preconditions of a potential crisis.


3.8. Relationship Between Number of Preconditions and Susceptibility to a Crisis

Having identified these ten preconditions of a crisis, we did an analysis of:

1. The number of characteristics or preconditions experienced by each organization in our sample, and

2. the relationship between the number of preconditions and the apparent degree of susceptibility to a crisis.

Specifically, we determined whether the characteristic or factor was "present" and/or "not present." This binary analysis is summarized in Exhibit 1.

**Exhibit 1**: Sample Companies with Characteristics (factors) of Susceptibility to Crises

| ITEMS | AMEX | Disney | Chrysler | Kodak | Navistar | Sears | UAL | Westfield | Osborne | Total number of Factors |
|---|---|---|---|---|---|---|---|---|---|---|
| Rigid corporate identity. | NA | X | N/A | X | N/A | X | X | NA | NA | 4/9 |
| Corporate culture is dysfunctional. | X | X | X | X | X | X | X | NA | X | 8/9 |
| Company culture is characterized by arrogance and hubris. | X | X | X | X | NA | X | X | NA | ? | 6/9 |
| Company leadership does not have the "right stuff." | X | X | X | X | X | X | X | NA | X | 8/9 |
| Losing sight of or ignoring competitive threats. | X | N/A | X | X | NA | X | ? | NA | N/A | 4/9 |
| Poor planning. | X | X | X | X | X | X | X | X | X | 9/9 |
| A dysfunctional structure. | X | ? | X | X | X | X | ? | NA | X | 6/9 |
| Internal systems and processes that are no longer effective or efficient. | X | ? | X | X | X | X | NA | NA | X | 6/9 |
| Innovation without implementation. | NA | NA | X | X | ? | X | NA | NA | X | 4/9 |
| Poor or declining performance. | X | X | X | X | X | X | ? | NA | X | 7/9 |
| Total Company Score | 8/10 | 6/10 | 9/10 | 10/10 | 6/10 | 10/10 | 5/10 | 1/10 | 7/10 | |

Our finding is that *there appears to be a relationship between the number of characteristics that each company has and the extent to which it was susceptible to crisis*. For example, those companies *with more than 7 characteristics*, all were experiencing a stealth crisis (in many respects) before the full-blown crisis caught leadership's attention and it began to be addressed.

Accordingly, although this measure of susceptibility to a crisis has not yet been subject to a rigorous statistical validation and our sample is relatively small, our hypothesis is that companies with scores of:

1. Fewer than three characteristics are *not* susceptible and not likely to be in crisis.

2. Five to six characteristics are moderately susceptible and on the edge of crisis.

3. Seven to nine are very susceptible and also likely to be in crisis.

4. Ten characteristics means the organization is very highly susceptible and likely to be in extreme crisis which might lead the lead to the company's demise.[53]

In brief, all of the companies examined in this book had at least one of the characteristics or factors designated as "underlying causes of crisis" before their crisis. However, there is a clear observable difference in the number of "underlying causes" between the companies classified as successful and those classified as unsuccessful. This will be a significant area for future research.

3.9. Dysfunctional Cultural Characteristics Creating Susceptibility to a Crisis

In our study we found that problems in a company's culture can be a significant cause "susceptibility to a crisis." This was observed in eight of the nine companies studied, as shown in Exhibit 2.

**Exhibit 2:**

**Dysfunctional Cultural Characteristics**

- Cultural overconfidence or arrogance
- Inflexible corporate identity
- A culture of fiefdoms or silos
- Resistance to change
- Antipathy to anything "not made here"
- Extreme sense of "we are different"
- Failure to challenge authority
- Unwillingness to question ideas and proposals
- Conflict avoidance
- A cultural lack of accountability

Based upon our research analysis, we also identified *specific dysfunctional cultural characteristics (or* aspects of culture weaknesses) *which seem to be instrumental creating susceptibility to a crisis.* These are cultural characteristics or traits that leave an organization vulnerable to a crisis and, when the company

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53. Flamholtz and Randle (2020).

does experience a crisis these symptoms put the company at greater risk. Specifically, we have identified the typical dysfunctional cultural characteristics – shown in Exhibit 2 – that can cause or contribute to crises; or inhibit their resolution.

Taken together this is set of dysfunctional cultural characteristics that can cause, contribute to or inhibit crisis resolution. We have developed tools to assess the degree of cultural dysfunctionality of this combined set. Discussion of these tools are beyond the scope of this article.[54]  However, we will examine each of these cultural characteristics below in order to indicate why they are dysfunctional and the role that they can play in causing, contributing to or inhibiting a crisis and/or crisis resolution.

*Cultural Overconfidence or Arrogance*: Some companies are so successful for so long that it becomes inconceivable that they could experience anything but success. When that viewpoint takes hold, it sets an organization up for difficulties or even failure.  This was one of the cultural characteristics and problems at American Express, Kodak, and Sears.  In all three cases, it caused management to ignore or downplay competition and competitive threats. It might also have been a factor at Westfield.

*Inflexible Corporate Identity*: All companies need a sense of identity. However, corporate identities are based on a concept (either explicit or implicit) of the firm's role in relation its market.  In that sense, corporate identities are derivative; that is, they are derived from the firm's defined role <u>vis a vis</u> its customers and market. If a market changes, a firm may (and probably will) need to change its business concept or identity.  If, in spite of evidence that its identity no longer fits its market space, a firm resists change, it will inevitably experience difficulties and possibly a crisis.  This is what happened to Kodak and Sears, and led them down a path to inexorable difficulties.

*A Culture of Fiefdoms or Silos*: Over time many companies develop silos or fiefdoms within. Although these can be tolerated when things are going well, they can become problematic.  They can lead to a lack of cooperation across the organization which can contribute to or exacerbate a crisis.  Fiefdoms or silos can also be a significant inhibitor or source of resistance to proposed solutions to a crisis.  This problem with fiefdoms was recognized by Lee Iacocca at Chrysler, and he took steps to root them out.

*Resistance to Change*: Having a culture that resists versus embraces change can be a contributor to the initial crisis, as well as a significant barrier to the effective resolution of the crisis.   A reluctance to change "how we do things" as a company grows can result in a crisis, even when the company is not faced with challenges from its environment. Resistance to change when a company is losing customers to competitors can be even more deadly.   A version of this problem was in evidence at Kodak, which moved slowly while competitors introduced

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54.  Flamholtz and Randle (2020).

innovative products that undermined the company's leadership position. This problem was also encountered by the leaders at Sears and UAL/Allegis in their efforts to deal with their crises and revitalize those organizations.

*Antipathy to Anything "Not Invented Here*: "Closely related to "resistance to change," a generalized antipathy to anything "not invented here" tends to inhibit change and innovation. The company may be resistant to adopt practices that are being used by others to increase efficiency or effectiveness (as was the case at Chrysler before Lee Iacocca's arrival). There may also be excessive (and unnecessary) resources (including time) invested in developing in-house solutions to problems when a more cost-effective approach would have been to adopt "proven" systems and processes developed elsewhere.

Extreme Sense of "We Are Different:" Carried to an extreme, when this is a dimension of an organization's culture, it can lead to the notion that we cannot learn from anyone else. As is true of "not invented here," this can contribute to the crisis and can significantly lengthen the time that it takes to address it.

*Failure to Challenge Authority:* In organizations that have had very strong leaders who do not tend to tolerate dissent, people are sometimes virtually "trained" to not challenge authority. One to the authors actually heard an exchange between a COO and another senior executive in which the former said: "When I say jump, you need to say 'how high'"! Faced with that attitude, people learn not to challenge authority.

In the context of cases examined above, we recall that Lee Iacocca made questioning decisions of the CEO as an explicit part of the Chrysler's culture under his leadership. This implies that it was not really part of the culture prior to his becoming CEO. Similarly, we know that Harvey Golub made open debate and key part of decision-making at Amex. One of the stated reasons he picked Kenneth Chennault as his successor was the latter willingness to take positions contrary to Golub as CEO, leading the latter to the conclusion that Chennault had courage.

*Unwillingness to Question Ideas and Proposals*: The type leadership behavior described above is intended to shut down any challenge to authority. However, it tends to lead to a relatively passive organization that is unwilling to question ideas and proposals even among equals. It is commonly found in siloed organizations and those with fiefdoms where the cultural norms (either stated or implicit) are: "You stay out of my territory and I'll stay out of yours"!

*Conflict Avoidance*: While extreme conflict can be counter-productive, a lack of conflict in a culture can provide a spurious sense of harmony and lead to poor decisions. A good example is the consequences of the culture at AIG in the period leading up to the great financial crisis of 2008-09, where there were no challenges to the assumption that credit default swaps were a "free lunch.[55]" Specifically, one of the key aspects of the culture at AIG which had characterized the firm from

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55. Flamholtz and Randle (2011).

its beginnings was that "just about anyone could question a trade."[56] However, this cornerstone of the AIG culture eroded over time under the leadership of Frank Cassano, formerly the firm's Chief Operating Officer, and the man who assumed leadership of AIG's Financial Products group in the fall of 2001. In 1998, Cassano played a key role in the company's internal "credit-default swap" debate.[57] Almost from the beginning, Cassano was a big supporter of the credit default swap product. He, as well as others, failed to understand the risks involved, and he seemingly failed to understand that he was betting the company. Under his Cassano's leadership, the Financial Products division would take on more risk. Management became more top down. The long held cultural norm that anyone could question any transaction at AIG was abandoned: "The culture that had characterized the firm (AIG) from the outset – one in which just about anyone could question a trade – would change, according to people who worked at the firm."[58]

No one dared question the logic of the credit default swaps trade, leading to an existential crisis that required a government bailout of AIG.


## 3.10. Implications

A key implication of these findings is that the underlying cause of a crisis can be internal, external, or both. Poorly designed or underdeveloped systems and processes, a dysfunctional or poorly managed company culture, and ineffective planning or plan execution are all examples of factors that can cause a crisis. However, a dysfunctional corporate culture stands out as one of the leading causes so organizational crises in 8 of the 9 companies in our sample, and a possible contributor to the crisis in the ninth company.

In brief, the ten dysfunctional cultural characteristics described above that make an organization susceptible to a crisis can also be the *cause* of the crisis.[59] Just as prevention is better than a remedy for Covid-19, prevention or elimination of the preconditions for "susceptibility to a crisis" is better strategy than remediation of a crisis. The set of ten dysfunctional cultural characteristics described above can be used to assess whether any organization is susceptible to a crisis.

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56. Flamholtz and Randle (2011).
57. Flamholtz and Randle (2011).
58. Flamholtz and Randle (2011).
59. Flamholtz and Randle (2011).

## 4. Determinants of Successful Leadership & Causes of Leadership Failure in Crisis

Based upon our analysis of the cases examined in this article, we have identified two different but related sets of lessons or guiding principles for successful leadership of an organizational crises. These are lessons which identify 1) principles of successful leadership of a crisis, and 2) causes of unsuccessful leadership of a crisis.

The lessons or principles of successful crisis leadership, and causes of unsuccessful crisis leadership closely related; but they are different from each other. They are the "dos" and "don't' s" of crisis leadership. Each set of lessons is described in turn below.

### 4.1. Lessons or Principles of Successful Crisis Leadership

The lessons or findings are that are principles of successful crises leadership are, in summary:

- Each crisis requires a "situation-specific" solution.

- Leadership must address both the technical/business and the human dynamics aspects of the crisis.

- The length of time of crisis resolution is typically longer than expected.

- Resources are required to buy time to address a crisis.

- Some leaders can simultaneously solve a current crisis while positioning the company for the future.

- Planning is an essential tool to lead an organization through a crisis.

- "Lead, follow, or get out of the way."

- There are times when the organization just needs to "cut its losses."

- Solutions tend to require a transformation of operations, management and management systems.

- Solutions tend to require Culture change.

- Leaders must model the changes required to address a crisis.

- It might be necessary to create a new leadership Team.

These finding and lessons are discussed and explained below.

*Each Crisis Requires a "Situation-Specific" Solution*: All crises are different. There is no one factor that leads to either success or failure in addressing it. However, the overriding principle seems to be the ability to understand the nature of the crisis and design an appropriate strategy to deal with it. In some cases, an appropriate strategy means acquisition of other firms. In other cases, it means divestitures such as at International Harvester that transformed into Navistar by divesting other business segments. In still other cases, it involves developing new or refining existing internal systems and processes to better align with the company's size and complexity.

Address Both the Technical/Business and Human Dynamics Aspects of the Crisis: A surgeon can give a patient an anesthetic and put them to sleep while he or she operates. A business leader must deal with the beliefs, feelings, and reactions of people during the process of "organizational surgery." People can either embrace or actively resist the "surgical" plan for dealing with a crisis.

Accordingly, a strategic change must make sense to members of the organization on a human as well as a technical/strategic level. We have seen that in two instances – UAL and Sears – the organization resisted the changed vison and caused it to be dismantled even after it was executed and successful! Accordingly, it means that the leadership must market the "new" vision to the organization.

*The Length of Time of Crisis Resolution is Typically Longer than Expected:* There is generally no "quick fix" or panacea for a crisis. A crisis can take years or even a decade to resolve. The crises at Chrysler, Kodak, American Express, Disney, and others required several years. A few required a decade or more.

*Resources are Typically Required to Buy Time to Fix a Crisis*: Since time is required to fix a crisis, sufficient resources are required to provide the necessary time. Sometimes resources can be obtained from the government, Unions, or others. For example, Chrysler obtained the now famous bailout by the US` government.

*Leaders Must typically Solve a Current Crisis While Positioning the Company for the Future:* The challenge to leadership in a crisis is *to create a defense to manage the current crisis while simultaneously positioning the company for the future*. Some leaders (notably Lee Iacocca, Harvey Golub and Michael Eisner) can achieve this, while many more cannot.

*Planning is an Essential Tool to Lead an Organization Through a Crisis:* In several if not all of the of the examples of companies in crisis, a lack of planning or in- effective planning was one of the underlying causes. For example, in the case of Westfield's inadequate planning led to the crises because the firm purchased Channel Ten without a careful analysis of what was really involved in that business or how it would manage the property once acquired. Osborne

Computer grew "willy-nilly" without an understanding of the risk of rapid growth. The failure of Kodak to plan its diversification correctly led to the virtual destruction of a Global icon. Similarly, Sears turned victory into defeat by reversing a brilliant transformation.  Both Iacocca at Chrysler and Golub at American Express made planning an important part of their crisis leadership plan.

*Lead, Follow, or Get out of the Way:* Another possible key lesson is captured in the phrase: "Lead, follow, or get out of the way." This was essentially the implicit mantra at Chrysler under Iacocca. When people resist a leader's initiatives, they can imperil their success.  This failure to "get out of the way" really refers what is termed "resistance to change."

Leaders like Iacocca, Golub, and Eisner somehow managed to get people to 'buy into" their visons. Ferris at UAL and Telling at Sears, failed to achieve this.

*Be Willing to Cut Your Losses:*  Sometimes the way to resolve a crisis is to "take the hit" and "cut your losses by "amputating" the reason for the crisis. This is way Frank Lowy did by divesting Westfield of "Channel Ten" in Australia.

*Solutions Require Transformation of Operations and Management Systems:* Solutions to crises tend to require a transformation of operations, management and management systems. This reengineering process might require several phases over a number of years as at American Express.

Finally, solutions to crises tend to require changes in performance management and incentive programs.  Typically, changes in performance management require, in turn, changes in metrics used to evaluate performance. This was what was Iacocca did at Chrysler and Golub did at American Express. Solutions to crises also tend to require changes in organizational structure. Sometimes these structural changes this are required to eliminate fiefdoms or silos which have developed over time. This was done by Iacocca at Chrysler and Golub at American Express.

*Leaders Must Model the Cultural Changes Required:* Ideally, the leader must model or personify the cultural changes to be made.  The behavior of Lee Iacocca who took a salary if $1 and Harvey Golub are good examples of this. Golub forbid hidden agendas, and indicated that the political practice of simply agreeing with the CEO was not acceptable.  Golub also took the position that his visible personal involvement was important to symbolize to the organization that these projects were high priority.

*It Might Be Necessary to Create a New Senior Leadership Team:* As part of the resolution of a crisis, a leader might need to create a new senior leadership team. Lee Iacocca did this at Chrysler. Golub did it at American Express. Similarly, Eisner added new members to his team, notably Jeffrey Katzenberg, at Disney.

The late Sanford Sigloff, who was a legendary turnaround expert in his day, told one of the authors that he always brought his own team into a crisis situation.[60] Later he would create a new leadership team to manage the turnaround that he had orchestrated.  He also indicated that some of the leaders in

a firm were probably good enough to remain, but that in a crisis he did not have time to experiment and determine who was a capable manager. Accordingly, they were all replaced.

Sigloff's observation of his experience with the need for a "team" is illustrated by the example of what Lee Iacocca did at Chrysler. As noted above, oneof Iacocca's major steps in beginning to address the crisis and beginning to transform the company was to assemble a new senior management team.    This enabled Iacocca to change the composition of Chrysler's management and its culture. The new leadership group operated as a team, but with each individual having specific responsibilities and objectives that would help the company develop the infrastructure needed to operate effectively within its new environment.

Both Sigloff's observation of his experience with the need for a "team" to manage a crisis situation and Iacocca's example of creating such a team at Chrysler is further supported by our own empirical research which has identified the need for with we have termed a "leadership molecule," or core team consisting of two, three or four leaders who jointly perform several core tasks of strategic leadership: vision, strategy, culture management, organizational development, and infrastructure (systems) management.[61]

4.2. Lessons from Unsuccessful Leadership of a Crisis

In addition to the lessons learned about how to lead a crisis successfully, there are also lessons from these cases about *unsuccessful* leadership of organizational crises. The lessons or findings about causes of unsuccessful crises leadership are, in summary:

- Solving the Wrong Problem!

- Creating the Wrong *Solution* to a Problem.

- Failure To "Cross the Rubicon".

- Failure to address the Crisis in a Timely Manner.

- Need to get Buy-in to a Solution.

These finding and lessons are discussed and explained below.

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60.  Personal communication with Eric Flamholtz.
61.  Flamholtz (2011); Flamholtz and Kannan-Narasimhan (2013).

*Solving the Wrong Problem:* A very important lesson about *unsuccessful* leadership of organizational crises is found in the case of Kodak. Unfortunately, Kodak illustrates the tragedy of solving the incorrect problem.

Kodak believed and made the explicit assumption that that difficulties in new product development were its core underlying problem. However, Kodak's difficulties in new product development were a *symptom* of its underlying problem and *not the core problem* to be solved.

The true fundamental problem concerned the nature of Kodak's culture and its corporate identity:  The company had become too cautious and risk-adverse; and the accepted business definition was that we are a "company that is a leader in producing film and, as a result, has certain core competencies that can be built upon to continue our success." Sadly, under Chandler's leadership, Kodak's revitalization strategy was simply "diversification" based upon core competencies.  Kodak never articulated an appropriate overarching vision for what Kodak was to become.

This diversification strategy was poorly conceived, based on a spurious (false) premise, poorly executed, and ultimately did not work.  To a great extent, the failed solution to Kodak's crisis was attributable to the lens it used in planning its revitalization.  During the 1980s, the lens typically employed was the "market share growth" matrix, as originally developed by the Boston Consulting group. This was not a correct lens for the company's problems.

Another implicit lesson in the example of Kodak is the need to correctly identify and define the problem(s) facing a company. Stated differently, it is critical to know what really needs to be fixed, so that an appropriate solution can be created.

*The Wrong Solution to a Problem:* A very important lesson about *unsuccessful* leadership of organizational crises is that the solution must match the problem. Sears attempted to solve its crisis by redoubling on its current core business of merchandise retailing. This was not the correct solution. Westfield faced the need for diversification, but chose to diversify into an area (media) that not only did not help, it actually almost caused the company to fail.

*Failure To "Cross the Rubicon*: Another important lesson of unsuccessful crisis resolution is failure to "Cross the Rubicon." As discussed in the case of Sears failed crisis leadership, in the days of the Roman Empire, when Roman armies crossed the Rubicon River *there was no turning back*. They went into battle and either won or lost.

Sears never "crossed the Rubicon."  Even though the transformation strategy to deal with its crisis was a success, the strategy was reversed, ultimately leading to corporate failure.

Edward Telling's leadership failure was to neglect the culture and mindset of Sears managers. Effectively there was not one but two Sears:  the "Old Sears" and the "New Sears." The "Old Sears" (the retail merchandise division) viewed itself

as a retail merchant. The members of "Old Sears" viewed new Sears as *not* "the real Sears" and hence it was disposable!

*In a Crisis, Time is of the Essence:* Just as in a fire, time is of the essence in an organizational crisis. If the company cannot move quickly enough to create the management capabilities and management systems ("organizational infrastructure") requited to support its operations, it will be at risk for failure just as at Osborne Computer. Similarly, Westfield was seriously "hemorrhaging" after the acquisition of Channel Ten. Perceiving this, Frank Lowey moved quickly to "stop the bleeding" and got rid of the Channel Ten.

*Need to get Buy-in to a Vision*: Both Sears and UAL/Allegis are examples of the failure to get buy-in to a new vision. The key lesson of these leadership failures is the warning to leaders about the need to get buy-in to their proposed visions.

## 4.3. Other Lessons

In addition to the lessons concerning the principles of solutions to crises, and the lessons about leadership failures in dealing with crises, there are a few other related lessons. One of these important lessons is that the "ingredients" for a successful solution to a crisis might already be in place. However, it will take a skilled leader to utilize these ingredients to orchestrate a solution to the crisis. This was the case at Disney: The "ingredients" for Disney's success were there; but it took a skilled leader like Michael Eisner to create a path to future success utilizing those ingredients.

As we have seen, there was no one approach that functioned as a recipe or panacea for a crisis. Of the firms that managed the crisis *successfully*, some firms (notably Chrysler and American Express) dealt with crisis by keeping their vision intact and attempted to revitalize the company and its operations. Others (made changes in corporate vision (Disney and Westfield). Some attempted acquisitions (Kodak, Sears,) and others divested part of their firm (Westfield and International Harvester/Navistar). Accordingly, it appears that a custom solution is required for a crisis.

## 5. Limitations and Areas for Future Research

## 5.1. Limitations

As noted above,  primary limitation of the current study was the sample size. It is not asserted or assumed that set of cases is statistically representative of the entire

population of enterprises, it does however present a significant sample of firms that experienced crises.

Given the immediacy of the need for the perspective on leading through crises, the sample of companies used was one that already exited as part of a broader research program, which had been collected over a period of years. It was deemed to be infeasible to begin research on a new set of companies and complete the study in real time to permit our findings to be utilized by current organizations that were in the midst of the economic crisis caused by the Covid-19 pandemic. Accordingly, the limitations of this approach were understood and deemed to be acceptable give the immediacy of the need.

## 5.2. Areas for Future Research

Recognizing the limitations of this approach, a secondary objective of this study was to serve as hypothesis and model generating research, which could be the basis of future research. Specifically, some of our findings can provide the basis for future research, including our findings from the set of entrepreneurial and established companies which experienced crises. There are other areas for future research as well. In all of the companies examined had at least one of the factors designated as "underlying causes of crisis" before their crisis. However, there is a clear observable difference in *the number or frequency* of "underlying causes" between the companies classified as successful and those classified as unsuccessful. This will be a significant area for future research.

Other areas for future research include investigating a broader set of companies with different parameters. Also, future research can include a formal factor analysis to determine the validity and reliability of both the characteristics that seem to be preconditions to susceptibility for a crisis and the dysfunctional cultural *characteristics (or* aspects of culture weaknesses) *which seem to be instrumental creating susceptibility to a crisis.*

Another possible area for future research is to extend prior research by Flamholtz and Kannan-Narasimhan to investigate the relative effectiveness of a single leader versus a leadership team (or "leadership molecule" as explained above) in leading the crisis management program.[62]

## 6. Conclusion

As we have seen, the successful leadership of companies in crises is very complex. This article has summarized the insights and lessons from our

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62. Flamholtz (2011); Flamholtz and Kannan-Narasimhan (2013).

examination of a sample of classic successes and some equally iconic failures in leading companies in crisis.

Taken together, these lessons comprise the ingredients to create a "playbook" for solving a crisis. However, there is not a specific step by step protocol that can be used in all cases; rather, the specific playbook must be created on a "situation specific" or case by case basis.

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