

"Seven Lessons for Leading in Crisis"  
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Virtually every American institution is facing major crises these days, from declining businesses to evaporating financial portfolios. To get out of these crises, authentic leaders must step forward and lead their organizations through them.

The current crisis was not caused by subprime mortgages, credit default swaps, or failed economic policies. The root cause is failed leadership. New laws, regulations, and economic bailouts won't heal wounds created by leadership failures. They can only be solved by new leaders with the wisdom and skill to put their organizations on the right long-term course.

Here are seven lessons for leaders charged with leading their organizations through a crisis:

Lesson #1: "Leaders must face reality." Reality starts with the person in charge. Leaders need to look themselves in the mirror and recognize their role in creating the problems. Then they should gather their teams together and gain agreement about the root causes. Widespread recognition of reality is the crucial step before problems can be solved. Attempting to find short-term fixes that address the symptoms of the crisis only ensures the organization will wind up back in the same predicament.

In order to understand the real reasons for the crisis, everyone on the leadership team must be willing to tell the whole truth. As J.P. Morgan Chase CEO Jamie Dimon said at a panel I chaired at the World Economic Forum at Davos in January, "It's not sufficient to have one person on your team who is a truth teller. Everyone on the team must be candid in sharing the entire truth, no matter how painful it is." How can we solve problems if we don't acknowledge their existence?

Lesson #2: "No matter how bad things are, they will get worse." Faced with bad news, many leaders cannot believe that things could really be so grim. Consequently, they try to convince the bearers of bad news that things aren't so bad, and swift action can make problems go away.

This causes leaders to undershoot the mark in terms of corrective actions. As a consequence, they wind up taking a series of steps, none of which is powerful enough to correct the downward spiral. It is far better for leaders to anticipate the worst and get out in front of it. If they restructure their cost base for the worst case, they can get their organization healthy for the turnaround when it comes and take advantage of opportunities that present themselves.

Lesson #3: "Build a mountain of cash, and get to the highest hill." In good times leaders worry more about earnings per share and revenue growth than they do about their balance sheets. In a crisis, cash is king. Forget about EPS and all those stock market measures. The question is, "Does your organization have sufficient cash to survive the most dire circumstances?"

Goldman Sachs, where I serve on the board of directors, anticipated the difficult times and built

up its cash reserves. When the markets got really bad, Goldman had adequate cash reserves to weather the storm.

Lesson #4: "Get the world off your shoulders." In a crisis, many leaders act like Atlas, carrying the weight of the world on their shoulders. They go into isolation, and think they can solve the problem themselves. In reality, leaders must have the help of all their people to devise solutions and to implement them. This means bringing people into their confidence, asking them for help and ideas, and gaining their commitment to painful corrective actions.

Lesson #5: "Before asking others to sacrifice, first volunteer yourself." If there are sacrifices to be made – and there will be – then the leaders should step up and make the greatest sacrifices themselves. Crises are the real tests of leaders' True North. Everyone is watching to see what the leaders do. Will they stay true to their values? Will they bow to external pressures, or confront the crisis in a straight-forward manner? Will they be seduced by short-term rewards, or will they make near-term sacrifices in order to fix the long-term situation?

Lesson #6: "Never waste a good crisis." This piece of advice comes from Benjamin Netanyahu, the next prime minister of Israel, at the panel I chaired in Davos.

When things are going well, people resist major changes or try to get by with minor adaptations. A crisis provides the leader with the platform to get things done that were required anyway and offers the sense of urgency to accelerate their implementation.

Lesson #7: "Be aggressive in the marketplace." This may sound counter-intuitive, but a crisis offers the best opportunity to change the game in your favor, with new products or services to gain market share. Many people look at a crisis as something to get through, until they can go back to business as usual. But "business as usual" never returns because markets are irrevocably changed. Why not create the changes that move the market in your favor, instead of waiting and reacting to the changes as they take place?

The Bottom Line:

In a crisis we learn who the real leaders are, and whether they have the wherewithal to stay on course of their True North.

About the Author

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