



Turnaround Leadership

Making Decisions, Rebuilding Trust and Delivering Results After a Crisis

THE SUMMARY IN BRIEF

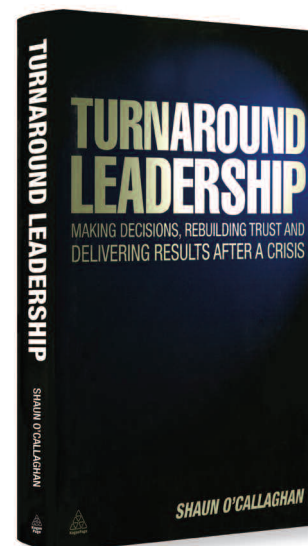
Crises come in all shapes and sizes. They could be the result of a shift in consumer spending habits, or system-wide problems arising from a recession. The simple fact is that if you are in business for any reasonable period of time, you will have to manage and lead through a crisis.

Turnaround Leadership can help you plan a successful recovery after a crisis. Not only will it enable you to rebuild your business through developing the skills required during a recovery, it will also help you to identify the causes of a potential crisis so you can avoid one in the first place. It starts by looking at exactly what a crisis is and what can cause one. It then concentrates on the key areas of leadership expertise you need to master in order to be more effective in recovering after a crisis.

Turnaround Leadership will give you the tools you need to make the right decisions and lead your staff in this new environment. It will help you to effectively communicate those decisions with your customers, investors, lenders, suppliers and employees. It will also show you how to deliver better results so you can get your business back on track.

IN THIS SUMMARY, YOU WILL LEARN:

- How to make the right promises.
- How to gather multiple viewpoints.
- How to develop core business skills.
- How to deliver results through relationships.
- How to rebuild trust with authentic communication.



by Shaun O'Callaghan

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THE COMPLETE SUMMARY: TURNAROUND LEADERSHIP

by Shaun O'Callaghan

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Leading After a Crisis

Any company that is being built to exist for more than a generation will have to go through periods of significant market uncertainty and suffer recession or business crisis. Any manager who wants to take up a leadership position will face a business crisis at some point in his or her career. In fact some leaders make it their career to help companies recover from a crisis. The simple fact is that if you are in business for any reasonable period of time you will have to manage and lead through a crisis.

Five Areas of 'Leadership Expertise'

There are five areas of "leadership expertise" that a manager can seek to master to be more effective in recovering after a crisis:

1. Making the right promises.
2. Gathering multiple new viewpoints.
3. Developing core business skills.
4. Delivering results through relationships.
5. Rebuilding trust with authentic communication.

As a leader after a crisis you must decide what, if any, promises to make and to which stakeholders. In periods of crisis and their aftermath there will always be higher levels of uncertainty about the future. Perversely, in such periods of heightened uncertainty people crave more uncertainty. Everybody asks for more and more detail, and budgets and forecasts are redone at more frequent intervals.

In such circumstances understanding the perspectives of your customers, investors, lenders, employees and suppliers is a key part of devising, communicating and delivering a successful recovery plan.

The second area of leadership expertise is gathering multiple viewpoints. It is often the lack of a fully rounded view of the issues that results in a business crisis. As you plan to emerge from the immediate impact of a crisis it is essential that a diverse, but appropriate, range of viewpoints is gathered to inform your recovery plan, communication and implementation. A critical aspect is not just gathering the differing viewpoints but being able to understand how the viewpoints interact with each other.

The third area of leadership expertise is developing the core business skills that will help you make the right judgments and plans for a recovery. These may be skills that you have already developed and use in "normal" business circumstances, but their application to a post-crisis environment may require you to refresh your insights.

The fourth area of leadership expertise covers how you can affect the delivery of business results. At a certain tier of management you become unable to directly deliver results through the impact of your own efforts. At this point working longer and longer hours, with ever more intensity and enthusiasm, will not produce the returns that it did earlier in your career. By this stage you will need to have made the transition from delivering results by yourself to enabling other people to be more capable and motivated in their jobs.

The fifth area is rebuilding trust with authentic communication. The first four areas of leadership expertise require skilled communication to rebuild trust with people inside and outside your organization. To be effective such communication needs to be authentic. ●



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What Is a Crisis?

Failing to recognize that you have a crisis will prevent you and the rest of your management team from starting to take the actions necessary to manage and recover from it. A dictionary definition would say that a crisis is a time of intense difficulty or danger.

In medical terms a crisis is the turning point of a disease, when it becomes clear whether the patient will recover or not. The origin of the word crisis is from the Greek *krisis*, meaning “decision.” In order to produce a practical business definition of a crisis it helps to focus on two parts of these different definitions: the concept of a turning point and the danger the problem poses.

The working definition of a crisis used here is when stakeholders change their view on an important assumption they are making about your business; or when you as a business fail to deliver on one of your promises.

Triggers of a Crisis

Using this definition provides us with a way to start to identify the risks within your business that could trigger a crisis. The first steps to take are:

- Identify the key stakeholders.
- List the critical assumptions made by each stakeholder.
- List the promises made by the business to each stakeholder.
- Consider the danger caused by a change in any assumption and/or any broken promise.

The first stage in completing these steps is to agree who the key stakeholders are within your business. While political correctness may prompt you to list a large number of interested parties, focus on the top five or six. Involving more diverse views from across the whole spectrum of your organization and its partners may flush out a stakeholder that you had not considered important before.

The next step in defining what could trigger a crisis is to list the critical assumptions that each important stakeholder is making. At any one time each of your stakeholders will have made certain assumptions about the future based on their view of what is likely to happen.

Identify and List Important Promises

The third step of the process is to identify and list the important promises that have been made to each stakeholder. It is necessary to distinguish between assumptions and promises. Assumptions are made by a stakeholder about your company, sector or the total economy. In contrast, a promise to a stakeholder is made by a manager.

Many Types of Crises

Crises can come in many shapes and sizes: system-wide and sector-specific problems can arise from a recession, technology changes that render a business model obsolete, regulatory changes and shifts in customer spending habits. Company-specific problems may result from poor strategic choices, lack of financial discipline, failed implementation of an IT project or self-inflicted damage to a brand.

The last step is to consider the consequences of a change in other people’s assumptions and/or the breaking of promises made by the business.

Analyze the potential triggers of a crisis. A thorough analysis using stakeholders, assumptions, promises and danger level is quite involved and may even be a deliberately harsh definition of an impending crisis. It is harsh because it may sound the alarm bells on an impending crisis earlier than you think is necessary. But a harsh definition is more likely to alert you earlier to problems and possibly prevent them from becoming a full-blown crisis. The Titanic sank for many reasons, but part of the cause of management complacency at the White Star Line was the assumption that the ship was unsinkable. ●

External Causes of a Crisis

We can examine a crisis by looking at the underlying assumptions and promises that a business has made and seeing what caused stakeholders to change their opinions on those assumptions and promises. We can split the turning points into those primarily driven by external factors and those resulting from how the business is managed.

The four external factors to consider are: economic cycles; customer priorities; product, technology and business model innovation; and outside intervention.

Economic Cycles

For a business leader, trying to predict the timing of a downturn is not necessarily the best use of his or her time. Perhaps the old maxim of “hope for the best but plan for the worst” is a useful motto for managers.

Do not assume that today’s economic circumstances will continue forever when things are good, or get better quickly when the economy is bad. Whatever the circumstances, you will be at a competitive advantage if you generate more of your cash flow needs from internal sources.

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Customer Priorities

The second possible external cause of a crisis relates to the spending intentions of customers and consumers. Such changes in the normal course of competitive business should not be an external factor that causes a crisis. If it does become a crisis this is because management has been insensitive to the changes in the market that have been happening and have failed to react to them. The factor we are looking for here is the risk of a sudden change in spending patterns that would be much harder for a management team to predict. Hence this factor may be more of an outlying risk of causing a crisis but it can have a dramatic impact if it occurs.

A change in consumer sentiment about their wealth and continuing employment can cause rapid changes in spending decisions that last for many years.

Product, Technology and Business Model Innovation

The third area of external change that could generate a crisis is in the area of innovation.

As with potential changes to customer spending priorities, the normal cut and thrust of competition will produce a continuous flow of innovations that managers have to anticipate, be sensitive to and responsive to. This normal level of innovation is something that a leader should expect to have to manage and on its own is not a driver of crisis. Failure to respond to market innovation will create a crisis if management is too optimistic in its assumptions or insensitive to what is changing.

Outside Intervention

The last driver of a potential crisis from an external perspective is when a regulator, government or legislator changes the rules of the game for a specific company, a sector or the economy as a whole. These types of changes can result in sudden and cataclysmic impacts that have terminal consequences for a company. Why? Because a critical stakeholder has removed a company's license to operate or ability to trade profitably and management has very little time or few ways to respond. This is a perfect crisis that management did not see coming and its impact on value can be enormous. ●

Internal Drivers of a Crisis

We can itemize four causes arising from within management that contribute to a crisis-generating turning point. They are broken promises, corporate breakdown, management optimism and lack of sensitivity.

Broken Promises

The seeds of a crisis germinate at the point where a key stakeholder changes a critical assumption about a business and/or when an important promise made by management is broken. You will need to identify potential internal drivers of a crisis. Understanding what promises have been made is a good place to start.

Many companies that have made it through a crisis did not have a complete or up-to-date schedule of all the critical promises the business had made to its stakeholders. The first question must be whether your business knows what promises have been made, and how and when those promises are reviewed and assessed.

Always keep a register of the promises you make and, as importantly, investors might think you have made.

Corporate Breakdown

The second internal driver of a potential crisis is some form of corporate breakdown.

There are at least four traits of a business that a leader can monitor to help identify such breakdowns from a system-wide perspective:

- *No 360-degree view.* Decisions are made at a boardroom level without a genuine understanding of how the business actually operates.
- *Unbalanced economics and incentivization.* A business model, product or promise works in the short term but is a ticking time bomb that remuneration policies obscure until too late.
- *Management optimism.* Leaders are always assuming that things will be better than they turn out to be and responding too late to adversity.
- *Lack of sensitivity.* Managers do not scan their environment, market and business effectively enough to pick up on emerging trends and threats.

Devoting some serious management effort to these four areas can make a worthwhile impact on the incidence of serious corporate breakdowns.

Management Optimism

The third internal driver of a crisis is the predisposition of many managers to make over-optimistic assumptions about the future; it is a common trait in relation to identifying potential corporate breakdown.

Unhealthy optimism is found in leadership teams that make assumptions about future sales, margins, costs and cash flows that push middle managers to make poor resource judgments.

A word of warning. A leader who is displaying unhealthy optimism will often not recognize it, confus-

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ing the need for a positive mental attitude with unhealthy optimism and, when the issue is raised, will shoot the messenger.

Lack of Sensitivity

The fourth driver of a crisis is where leaders and managers think they are sensitive to changes in the market but actually miss critical trends and changes. Such a lack of corporate sensitivity can manifest itself in being slow to understand changing customer needs, expanding too slowly or too fast in new countries and markets, in losing staff as ways of working change, or in being unable to set the right cost base.

Being sensitive means continually scanning the market and your own business to pick up emerging trends and issues. It is also the ability to make sense of disparate sets of conflicting data and take some action as a result. ●

Where to Start After a Crisis — Making the Right Promises

In the normal course of business, a leader is constantly making and trying to deliver on a set of promises to key stakeholders. The challenge is to try to give a reasonable return to all stakeholders. The choices of what promises to make and, critically, the delivery against those promises make up the fundamental core of what a business does. In many ways, you could say that the principal role of a leader is to make, balance and deliver business promises. Such promises could include:

- What can I promise to investors and lenders to attract and retain the right financing?
- What will customers expect and require from our company in order to buy from us?
- How can I attract, motivate and retain the right people?
- What will suppliers want from me, and what can I promise them?

Consider the interactions between four categories of stakeholders: customers, investors and lenders, employees and suppliers.

A crisis will destabilize the positions of the different stakeholders and restrict your ability to deliver on the promises previously made. To help with the start of your planning after a crisis spend a little time thinking about each of the key stakeholders, how they might feel and the promises you might consider making them:

- **Customers.** For a promise to customers to make business sense it needs to provide value to them, so they will stay with you or return if they have left; be capable of being delivered by you at a profit; and

generate sufficient cash to pay all the other stakeholders their promised return. Consider the promises made against four parameters — quality, value, service and innovation.

- **Investors and Lenders.** The types of promises that companies make to investors and lenders tend to be financial in nature. As you start out on your recovery plan preparation the first important thing to do is understand what the lenders can do to help you in your turnaround and what they can do to remove control from your hands.
- **Employees.** After a crisis, your people will be the ones to design and deliver a recovery plan and you may have to make and keep promises to them that were not necessary in less turbulent times.
- **Suppliers.** As with the other three categories of stakeholders, understanding the current position of your suppliers, their potential reactions and the impact of their actions on your recovery planning are necessary first steps to take. ●

Gathering Multiple New Viewpoints

The second area of leadership expertise is about expanding the insights and knowledge you have about the crisis and the potential recovery options. This should enable you to make better choices and plans. The two resources in scarce supply after a crisis are cash and time. In order to increase the supply of both you will have to take actions, communicate effectively and deliver some early results. Action is not, however, a complete substitute for thought and insight. The actions you take have to be smarter than the ones that took the business into a crisis.

As with all matters of business, and in particular after a crisis when you are under greater levels of scrutiny, everything is a question of balance and perception. You need to ensure that stakeholders who expect rapid action feel that you are taking the necessary urgent measures. As a leader you must ensure that people in your team are, for example, totally in control of cash forecasting and management. As importantly, you need to make sure that stakeholders “perceive” that you are in total control of cash.

In addition, as a leader you need to make sure there is time available to seek out the fresh insights that you and the team will need. Given that time is always short in a crisis, you need to make the best use of the resources you apply to gaining new perspectives.

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There are a couple of important principles about any approach that you use to gain fresh insight. First, make sure that you take a 360-degree viewpoint, which will require going to a wide variety of perspectives. Second, seek out new and different people, data and opinions. Sometimes it is the things on the periphery that are the most relevant but also the most difficult to find and interpret.

In business, being only a supply chain specialist or wizard accountant is unlikely to give you all of the perspectives that you will need to build and deliver a successful recovery plan. In order to make the best leadership decisions after a crisis you need to consider the factors facing your business from multiple viewpoints.

Six Viewpoints

You and your team need to test yourselves to see that you have sufficient knowledge to answer the questions that arise from six viewpoints:

- *Customer aces.* How will consumers and enterprises behave during and after a crisis?
- *Make promises you can keep.* How are plans and decisions made and do we deliver on our promises as a business?
- *Follow the money.* Where and how is cash generated and used within our business?
- *Lean not mean.* How is our cost base structured and what could be done to change it?
- *Flesh and blood.* How will the people outside and inside our business be affected by the crisis and how might they react?
- *Imagine new futures.* As we look toward the future, what is the transformational change that our company could make following the crisis?

It is important to consider the whole of your business from each particular viewpoint. ●

Core Business Skills 1 — Cash and Time

The third area of leadership expertise is developing the core business skills that could help you deliver a successful recovery plan.

Four core business skills are managing cash flow and time, developing strategy after a crisis, maintaining sales and cost base restructuring.

Managing Cash Flow and Time

Even companies not facing a crisis should always be trying to improve the amount of free cash flow they

generate from their business operating model. An improvement in free cash flow generation improves the valuation of a company and the opportunities it has to make strategic and tactical choices. Understanding cash as a platform to gain fundamental insights into your business after, or even before, a crisis calls for an active change in leadership and management philosophy. Here are some specific cash forecasting and management tools:

- *Cash committee.* A cash committee is responsible for producing the cash flow forecasts and planning and monitoring cash improvement initiatives.
- *Forecasting.* There are basically two types of forecasts: a short-term, 13-week forecast driven from your balance sheet and an 18-month to three-year forecast driven by your profit and loss account assumptions about the future.
- *Time and cash before the accounting starts.* Clearly the shorter the time it takes from idea to invoice the faster you will generate cash. Of course it is essential to improve your order-to-cash cycle but it is also possible to improve your idea-to-order time.
- *Cash improvement opportunities.* For most companies one of the largest areas of cash outflow is in the form of sales taxes, corporation tax and employee-related taxes. In each of these areas local rules and regulations can be investigated to determine opportunities for cash flow benefits.
- *Trapped Cash.* One of the first places to look for additional cash after a crisis is cash trapped in parts of the business that could be better applied elsewhere within the group.
- *Capital Spending.* There are two ways to approach the issue of capital investment. First, what can be afforded? Second, what does the recovery plan require? There will often be a difference between the two approaches, especially at the start of the recovery plan, immediately after the crisis.
- *Working Capital.* After a crisis many customers will have concerns about buying from you. If you can provide them with additional perceived benefits and change the cash profile of your working capital investments at the same time, then you are starting to build a robust recovery plan.

All of these tools have multiple purposes: improved cash generation, buying more time for your recovery plan, re-engaging management with the detail of the business and creating stakeholder confidence that you are in control.

Remember, time and cash are often your most precious resources. ●

Core Business Skills 2

Developing the following core business skills will help you design and deliver a better recovery plan: developing strategy after a crisis; maintaining sales; and cost base restructuring.

Developing Strategy After a Crisis

After a crisis that has generated liquidity issues, the strategy formulation process is often driven by the perceived requirements of the financial stakeholders. This involves management working out how much profit and cash need to be generated and then working back to the most achievable combination of sales volumes, prices, cost reductions, capital spending and disposals to achieve this. Some would call this “the pragmatic capitalist” approach to strategy after a crisis. It is probably the one most used by companies that have faced a financial crisis.

An alternative approach to the “pragmatic capitalist” is the customer- or market-driven opportunity strategy. After a crisis you consider what the needs and requirements of different customer segments are and choose the opportunities that fit with the demands of your stakeholders.

Maintaining Sales

Maintaining sales during and after a crisis is one of the most important things to focus on.

To assess the potential strategies for maintaining sales, there are three things you could start to think about.

First, the confidence of your salespeople. After a crisis your own employees’ confidence will be depressed. It is therefore a priority to produce and communicate a set of “questions and answers” for front-line staff to use with customers.

The second area to look at in maintaining sales is your marketing and product development teams. The important and urgent action is to communicate a shared view of the state of the customer’s mind across the organization. This means that different departments are all using the same assumptions when interacting with customers to generate sales.

The third area to consider in maintaining sales after a crisis is the external messages you choose to communicate. When Tylenol was reintroduced into the market after the poisonings in 1982, it was accompanied by significant price reductions. Johnson & Johnson was keen to give customers an added reason to retry the product. After a crisis, you could consider adding, for a period of time, a feature, whether price, guarantee length or service in addition to the product’s previous benefits.

Cost Base Restructuring

The flip side of striving to maintain sales income is to restructure the cost base to reflect the impact of the crisis and the proposed recovery strategy.

Each of the following post-crisis strategies provides a different context to the cost-reduction tactics that you could employ:

- *Cut back to grow.* A sizeable part of the cost base will need to be reduced, with many job losses and redundant assets to dispose of. However, an investment in the remaining core will be necessary.
- *Get fit.* The existing business may need to raise its net margins by 10, 20 or even 25 percentage points by increasing sales productivity and reducing the costs of operations and overheads.
- *Hold your breath.* Cost deferment and cost reduction need to be carried out to survive until the market returns, without permanently harming the business.
- *Save or dispose to invest.* Cost reduction efforts need to generate cash in the short to medium term, so the cash cost upfront of the cost restructuring cannot be too big.
- *Dress the bride.* Cost reductions can boost margins and therefore valuations, but care has to be taken not to cut perceived marginal activities that a purchaser values. ●

Delivering Results Through Relationships

The source of new ideas, better operating models, improved actions and the results you want is the network of relationships that you build inside and outside the business. The better those relationships are, the better business results you will deliver.

What does better relationships mean? There is both a quantity and quality element.

There is a wide range of people you will need to build relationships with in order to build and execute your recovery plan. It is not sufficient to rely on a narrow range of relationships where you feel comfortable.

As a business leader, your role is to act as the ringmaster, knowing everybody and having a sufficient relationship with them to gain their trust and contribution.

This brings into focus what the quality of the relationship needs to be. Clearly it will be different for different stakeholders. For your top team a quality relationship means that the team members are releasing their maximum discretionary efforts to achieve the plan. It can be

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measured by the contribution they are making to developing and accepting the changes that will be needed. It can also be measured by the success that the team has in selling the plan to the rest of the business. ●

Rebuilding Trust With Authentic Communication

After a crisis, trust levels between the company, its customers, employees, suppliers and financial stakeholders can be at dangerously low levels. This lack of trust can lead to cash and time problems, missing out on opportunities when an upturn happens and, very often, a change of management.

The trust equation can be used to develop expertise in this area:

$$\text{TRUST} = \frac{(\text{BENEFIT-COST}) \times \text{INTIMACY}}{\text{PERCEIVED RISK}}$$

The equation is a framework for thinking about trust and how to rebuild it after a crisis.

- **Trust.** The first challenge is to define how we would measure business trust. Can you define and measure trust in the same way as you would sales, cash or profits? Unfortunately, there is no international accounting standard for trust.

- **Benefits Less Costs = Value.** The first part of the trust equation is about the tangible business value that you are bringing to a stakeholder as a result of the implementation of the recovery plan. Or, to put it more simply, what is in it for me, the stakeholder? If the business benefits from the plan are inconsequential for a person or institution, why should they bother to support it?

Some stakeholders will be interested in the benefits, or damage, to their reputations, personal pride, sense of responsibility and position in society. The costs to them of their time and inconvenience may figure as greatly as any return of cash and profits.

- **Intimacy.** The next part of the trust equation is about the quality and quantity of your interactions with each stakeholder. You may have developed a revolutionary recovery plan that will change the face of the commercial world, but if nobody knows who you are, their trust in you will be zero. Anything big multiplied by zero is still zero.

- **Perceived Risk.** The last part of the trust equation focuses on the risks that the stakeholders see in committing their time, money, credibility and discretionary

Gut Feelings

The selecting and making of new promises after a crisis will test your common business sense. This “gut feel” about what is the right thing to do is a crucial ingredient in leadership and decision making. However, gut feel is also a dangerous way to make decisions if you do not have all the facts.

effort to the recovery plan. Note that this is not your view of the actual risks they face but the stakeholders’ own perception of the risks. To be successful in this area will require you to be able to stand in the shoes of your stakeholders and genuinely understand their point of view. This is one of the key components of being authentic. You make a genuine effort to understand the other person’s point of view.

The other key aspects of authenticity are that you do not try to be somebody you are not and you do not try to cover up the problems your business is facing. A quickly made, sincere apology and acceptance of responsibility can go a long way to re-establishing a base to build trust after a crisis.

Trust and Communication

Think about how you bring key stakeholders on side to support your recovery plan. Even if the quality of your plan and ideas are outstanding, a low level of acceptance by stakeholders means your results will be below requirement.

Consider the causes of a crisis and the five areas of leadership expertise that you can work to develop to be better prepared to manage after a crisis. The glue that will help to bring all of these elements together is your ability to bring the right level of trust with stakeholders.

Leading after a crisis is one of the most challenging experiences a manager can expect to face, but it can also be one of the most rewarding. Just remember, always, to be careful with your assumptions. ●

RECOMMENDED READING LIST

If you liked *Turnaround Leadership*, you’ll also like:

1. **Crisis Leadership Now** by Laurence Barton. A corporate insider’s insight discloses how catastrophes happen and how to build crisis management thinking into your company’s strategy.
2. **Corporate Reputation** by Leslie Gaines-Ross. Gaines-Ross identifies the roles corporate leaders must play in reputation recovery and sustainability.
3. **Judgment** by Noel M. Tichy and Warren G. Bennis. Leaders are remembered for their best and worst judgment calls. It is a leader’s judgment that can determine the fate of the entire organization.