CHAPTER ONE

Irrationality and Crisis

Chapter Highlights

- Definitions of crisis
- 'Hail Mary' crisis management
- Bounded rationality
- Bounded emotionality
- Unbounded irrationality
- Organizational narcissism
- Speaking up
- Unconscious acts of self-censorship

Why do organizations fail? How do seemingly responsible leaders not recognize looming disasters? And once a crisis emerges, what keeps smart, well-intentioned people from responding properly? These questions are at the heart of this book. Through a psychoanalytic lens, this chapter investigates how individuals collectively construct organizational environments in which certain dysfunctional behaviors are allowed – and even encouraged – while creating institutional vulnerabilities that can lead to crisis. For instance, we explore how Wall Street leaders in 'narcissistic organizations' display an obsession with success, power, and domination, along with a remorseless lack of empathy, that enables them to exploit others in ways that have repeatedly led to crises. The lack of a safety culture in fields of risky work such as medicine and aviation can create an environment in which employees find it difficult to speak up and voice safety-related concerns. Research has only begun to explore the variety of conscious and unconscious reasons that people self-censor in these workplaces, often with disastrous consequences.

To unpack these issues, let's first consider an obvious question: What is a crisis? For many people, just the word 'crisis' generates a variety of graphic, emotional images. What comes to your mind when you hear this word?

In today's society, the term 'crisis' is often used interchangeably for other words such as *accident*, *disaster*, *catastrophe*, *emergency*, *fatalities*, and a wide range of business problems, from product recalls to corporate bankruptcy. Dictionary definitions of 'crisis' emphasize that a crisis is a time of 'intense difficulty,' 'confusion,' or 'suffering,' often involving fatalities, disaster, or other sorts of emergencies. In addition, dictionaries suggest that a crisis typically involves 'a turning point' in which the situation could change – either suddenly improving or drastically declining – based on evolving events. In this book, we will dig deeper in our assessment of crisis.

Typically, investigations into crisis infer mistakes were made at the micro-level of organizations, blaming individuals based on operator error, inadequate supervision, improper training, poor planning, bad business sense, or unrealistic financial assessments. In addition, crises can involve illegal or unethical behaviors such as managers acting irresponsibly, selfishly, or fraudulently – or failing to act at all, when the situation warrants it. Crises may also involve organizational failures at the macro-level – for instance, manufacturing issues, production problems, design flaws, or weak regulatory guidance. Finally, a natural disaster crisis might result from an 'act of God' and Mother Nature, such as an earthquake, hurricane, tsunami, avalanche, or mudslide. Although the roots of crises vary, in almost all cases there were warning signs of impending disaster. The question then becomes, why don't leaders respond in ways that avert the unfolding crisis?

Crises often have emotional roots in irrationality, narcissism, destructive goals, or motivated blindness, and they may generate emotional outcomes such as anxiety, fear, panic, hopelessness, desperation, and loss of control. Feelings such as these may be experienced by individuals at the micro-level within organizations, but they are also collectively reinforced at the macro-level, challenging individuals' ability to stay rational, present, and engaged. For example, have you ever been in a workplace meeting in which people voiced concerns about an internal decision that you were not worried about? By the end of the meeting, you may have found that the group's emotions swayed you so that you joined in the conversation about who was to blame, even though you originally thought the group's concerns seemed ludicrous, and even paranoid. In such volatile environments, it becomes more comfortable for groups to split off their negative feelings and project them onto someone or something else to take the blame, rather than take responsibility for an unfolding crisis. Through this dynamic, groups can feel good about 'us' and project all that seems bad onto the 'other,' creating an 'us versus them' dynamic that feels productive because it vents emotions and assigns blame. In reality, this *splitting* dynamic perpetuates dysfunction by fostering divisions within groups and organizations and creating scapegoats.

Academic Definitions of Crisis

Like the dictionary definitions of crisis discussed earlier, *academic* definitions of crisis similarly focus on a range of different factors. One of the earliest and most popular academic definitions of crisis was offered by Pearson and Clair (1998, p. 60) more than twenty years ago. They define a crisis as follows:

> A low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly.[1]

Cited almost two thousand times, these authors were pioneers in the fledgling field of crisis management at the time and deserve credit for being among the first to attempt to consolidate a disparate, cross-disciplinary assortment of divergent theories into something coherent. That said, I take issue with the applicability of Pearson and Clair's academic interpretation of crisis to contemporary organizations. For example, the implications of Pearson and Clair's definition are that, first, a crisis is highly unlikely (i.e., "a low-probability" event). Second, if a crisis does occur, the damage will be extensive (i.e., "high-impact"). Third, organizational leaders will never see the crisis developing (i.e., "ambiguity of cause"). Fourth, people will not know how to respond to the emerging crisis (i.e., "ambiguity of means of resolution"). However, once the crisis strikes, people must nevertheless react quickly (i.e., "decisions must be made swiftly").

Several problems arise with this line of reasoning. Leaders in contemporary organizations are busy people with many pressing demands that have real and present implications in their workplace every day. Adopting Pearson and Clair's definition may cause leaders to believe that there is little benefit to worrying about hypothetical crises that may never emerge. Also, if leaders must simply respond quickly and intuitively, they have little motivation to learn how to proactively identify causes of crisis or to understand how to deescalate an unfolding crisis situation before it comes to fruition. Yet, as I will demonstrate in the coming chapters, nearly every contemporary crisis has exhibited warning signs that left ample time for leaders to avert the looming disaster. Finally, if we were to adopt Pearson and Clair's definition of crisis, there would be little need to study crisis management in business schools. Instead, when a crisis hits, business leaders would just muddle through it the best they can, using the resources available to them at the time and hope for the best. I call this flawed thinking 'Hail Mary' crisis management.

'Hail Mary' Crisis Management

In American football, the quarterback is the leader of the offensive team, coordinating the action and passing or running the ball in an effort to cross the goal line and score more points than the opposing team. Meanwhile, the opponent's defense is trying to tackle the player with the ball before he or she can score. A 'Hail Mary' pass is a long forward pass that has little chance of success but, given the lack of alternatives for a losing team, is nevertheless worth a try in a last desperate effort to win the game. The term was initially popular among Catholic universities, with the inference being that the situation is so hopeless it would take a divine intervention from God for the play to succeed. As Dallas Cowboys quarterback Roger Staubach famously explained to reporters after he threw a 50-yard touchdown pass to win the division playoffs in 1975, "I just closed my eyes and said a Hail Mary." Overtime, the term 'Hail Mary pass' has become more colloquial and typically refers to a last desperate effort to achieve a fleeting goal against all odds of success.[2] Applying Pearson and Clair's definition of crisis to real organizations, we are left with the impression that a good crisis manager is like a lucky football quarterback, dodging danger until he or she can throw a desperate 'Hail Mary' pass into the end zone, hoping someone on the team can catch the ball and win the game with just seconds left on the game clock.

In this book, I argue against 'Hail Mary' crisis management. I take issue with the applicability of Pearson and Clair's (1998) academic definition of crisis to workplaces today. Organizations are complex systems, operating in dynamic environments, and employees have pressing challenges right in front of them. I suggest that, rather than viewing crisis as anomaly that cannot be predicted or prepared for –as a sudden unfortunate accident that has befallen a previously highly functioning organization – we should embrace crisis as a naturally occurring by-product of an organization's change management processes. I argue that if organizational leaders are not proactively managing organizational change efforts and anticipating the unexpected, then they will inevitably be managing crisis instead.

Recent crisis management scholarship has begun to embrace a similar perspective. Scholars note that the proliferation of negative events and concomitant increase in crisis reporting should make crisis a normal occurrence in organizational life; in turn, managers and leaders need to be savvy in handling crises.[3] Several management and organization studies scholars have joined me in arguing that the gap between what is taught in management education in business schools and what is required in real-world leadership practices in organizations is significant and not simply semantics. For example, Professor Sumantra Ghoshal of the London Business School observes that bad management theories are destroying good management practices by legitimizing the destructive behaviors that have underpinned nearly all of the recent corporate crises, from Enron and Worldcom to Barings Bank and Global Crossing, among many others.[4] Similarly, Harvard Professor Rakesh Khurana argues that business schools can no longer sidestep their culpability in contributing to corporate crises by offering a 'few bad apples' explanation. Rather, business schools must be held accountable for their inability to help their graduates develop the ethics, values, and moral identity required to become responsible business leaders today.[5]

The overwhelming conclusion is that business school education and management research must cross-pollinate as a way to become more innovative and relevant or risk further obsolescence.[6] I suggest studying crisis is one way to achieve this cross-pollination. However, it is worth taking a minute to consider how crisis management, as a fledgling field of study, got to this juncture, in which academic theories about crisis undermine our ability to teach today's business school students who desperately need to hone reflexive leadership skills – not 'Hail Mary' approaches to crisis management.

Bounded Rationality

Although Pearson and Clair (1998) do not cite the term 'bounded rationality' in their definition of crisis or their discussion of crisis management, the underpinnings of the concept are apparent in their paper. Bounded rationality was first proposed in the 1950s by the US Nobel-laureate economist Herbert Simon as a way to understand economic decision making. The idea of a 'grand theory' with broad explanatory appeal was popular in the post–World War II period, and Simon's theoretical influence spread throughout management and organization studies.[7]

Simon observed that organizational leaders must work within three unavoidable constraints. First, the information available to decision makers is often fragmented and unreliable. Therefore, a leader's ability to develop a clear picture of evolving events and identify a successful plan of action, or a range of possible alternatives, is limited. Second, organizational leaders have a finite amount of time available to them in which to arrive at a decision, creating pressure to act swiftly. Third, the human mind is cognitively limited in its capacity to process and evaluate the barrage of information available at any one time, a factor that creates further stress and the need to make a decision and end the discomfort. As a result of these three factors, managers tend to filter out information perceived to be extraneous or superfluous during the pressure of decision making so as to prioritize more important data and arrive at a decision in a timely manner. Of course, this unconscious filtering process prompts an interesting psychoanalytic challenge for students and scholars of crisis management to consider: Which information gets prioritized during an unfolding crisis and which information gets eliminated?

Bounded rationality suggests that managers are confronted by far more information than they can possibly handle at any one time during a crisis. Since much of the emerging information is ambiguous, complex, and inchoate, the human tendency is to revert to more comfortable decision-making strategies as a way to narrow the potential options and reduce the uncomfortable accompanying emotions. For example, decision makers might import past experiences into the present context, apply personal preferences, adopt wishful thinking, and activate other conscious and unconscious biases to fend off the barrage of information and reduce feelings of anxiety.[8]

In other words, bounded rationality theory supports the view that, when pressured to save resources such as time, energy, and costs, decision makers pay selective attention to particular information, often focusing a disproportionate amount of attention on data that support their prevailing beliefs. Based on these influences, bounded rationality theory predicts that even well-intentioned experienced professionals who aim to make rational decisions will nonetheless be destined to make flawed – not optimal – choices in complex situations unless they consciously guard against this tendency. Thus, bounded rationality explains that, with so many urgent demands competing for decision makers' limited resources, most leaders would find little reason to try to proactively avoid a crisis and would rather try for the 'Hail Mary' solution if a crisis occurs.

Bounded Emotionality

Putting a different spin on the idea of bounded rationality theory, management professors Thierry Pauchant and Ian Mitroff studied organizational crisis in the 1990s and identified certain companies as 'crisis-prone organizations' and others as 'crisis-prepared' organizations.[9] In their study, they noted that managers in crisis-prone organizations often attempt to protect their sense of identity as good leaders and the image of their organization as successful rather than face emerging problems. To properly respond during an unfolding crisis, leaders must be willing to be honest with themselves and admit that they may not be great leaders and that their company may not be perfect. As Pauchant and Mitroff explain, these sorts of existential crises often get in the way of proper crisis management because even imagining the possibility of crisis unleashes a range of deep-seated emotions and associated defense mechanisms. Thus, a natural human response to crisis is to blame others or act quickly and impetuously, in an effort to avoid deep reflection. In other crisis cases, some people fail to act at all, as they are overwhelmed by the enormity of the decisions they face and the weighty repercussions of their actions.

Pauchant and Mitroff call this inability to manage anxieties associated with crisis *bounded emotionality*. They note that people in crisis-prepared organizations are better able to manage emotions and confront anxieties triggered during crisis because they are less bounded by debilitating emotions. Emotionally aware organizational leaders are better able to respond empathetically and responsibly to the needs of customers, employees, business partners, and the community during a crisis. We will investigate the psychodynamics of this phenomenon in more detail in Chapter 7 when we consider psychoanalyst Sigmund Freud's concept of the 'ego ideal.' For now, just recognize that successful crisis management is a multidimensional phenomenon that involves the ability to manage uncomfortable emotions such as anxiety and fear at the individual level, while also using productive emotions such as empathy and compassion to inform decisions and actions at the organizational level.

Unbounded Irrationality and Organizational Narcissism

In contrast to economists' theories about bounded rationality, which explain why organizational leaders may make flawed decisions, psychoanalytic scholars have developed *unbounded irrationality* as a way to explain why organizational leaders ignore disaster warning signs, blissfully proceeding forward during periods of crisis incubation. For example, Leicester Professor Mark Stein (2011) studied the collapse of the prestigious Wall Street hedge fund Long-Term Capital Management (LTCM), suggesting that the 1998 crisis resulted from *organizational narcissism*.[10] Let's return to Freud and unpack these terms.

Although many different types of people exist, Freud argued that there are three basic personality types: erotic, obsessive, and narcissistic. Erotic does not refer to sexuality in this context, but rather to an individual's need to please others. For erotic personality types, loving others and receiving love is paramount; thus, they often become drawn into helping professions such as nursing, teaching, or social work. As managers, erotic personality types are caring, supportive leaders who enjoy people depending on them. However, they often avoid conflict and can struggle to make difficult decisions out of fear of losing others' affection.

In contrast to erotics' external orientation, obsessive personalities are inwardly focused, self-directed, and detail oriented. As managers, obsessive personalities enjoy creating order, enforcing policies, keeping within budgets, resolving conflicts, and collaborating to create win–win situations for everybody. They can be highly productive team players and great mentors. However, in extreme cases, obsessives can fixate on minutia, lose sight of the big picture, and become officious bureaucrats, myopically focused on enforcing rules.

The third personality type Freud proposed are narcissists. These extremely self-absorbed individuals are frequently described as arrogant, manipulative, and demanding, along with having an insatiable need for admiration, a high sense of grandiosity, and a lack of empathy for other people.

Most of us have aspects of all three personality characteristics, which emerge differently in various situations, particularly when we are challenged or stressed. For example, we all need love and a certain sense of order in our lives, and each of us has aspects of narcissism in our personality – otherwise, we would not assert ourselves to satiate our basic needs. However, some people have one personality tendency that dominates all others. As managers, erotic personalities can be too nice and obsessive personalities too rule bound to lead effectively.

At first glance, narcissistic personality types often seem to be perfect leaders, visionary and transformational 'big picture' people who are able to attract dedicated followers in pursuit of greatness. However, there is a dark side to narcissistic leadership. Although narcissists have a high opinion of themselves, their self-esteem is remarkably fragile, requiring a constant 'narcissistic supply' of reaffirmation from others. Without this attention, narcissists often react with extreme hostility, attacking any perceived threat to their self-concept.[11] Unlike erotic personality types, narcissists are driven by a need for admiration, not love. And unlike obsessives, narcissists are motivated by their own goal achievement, not doing the right or moral thing.

Research shows that the combination of charisma, confidence, and 'win at all costs' aggression leads many narcissists to strive for senior management roles in the corporate C-suite, such as chief executive officer (CEO), chief financial officer (CFO), or chief operating officer (COO).[12] In these roles, narcissistic personality types often have the audacity and charm to push through product innovations and company transformations that other leaders would consider risky. However, the danger is that narcissistic leaders' overconfidence, inability to listen, and lack of self-knowledge and restraint may turn their shooting star visions into crashing meteors when their grand schemes fail to materialize. Studies have documented links between high levels of CEO narcissism and a propensity to commit fraud, for instance.[13] Narcissists' inability to reflect or hear feedback from subordinates becomes particularly problematic as a crisis unfolds, because they become hypersensitive to criticism and, feeling threatened, often strengthen their commitment to failing strategies.

When psychoanalytic scholars applied these concepts in the study of organizations, they discovered that some companies display an extreme form of narcissistic behavior called *organizational narcissism*.[14] Similar to individual narcissists as a personality type, narcissistic organizations display an arrogant sense of self-importance, unwavering belief in their own uniqueness, and an obsession with success, power, and domination that often leads to performance decline and crisis. Underpinning this behavior is a general lack of concern for the repercussions of their decisions that enables a remorseless exploitation of others, from employees and customers to the community and the environment.[15]

Of course, on one level, it is nonsensical to talk about organizations 'behaving' narcissistically. Organizations are made up of people who have agency to think and act in many ways. However, by peering through a psychoanalytic lens, we can see how people in organizations collectively enact many dysfunctional dynamics such as organizational narcissism. As a crisis unfolds, organizations suffering from extreme narcissism replace rational, reality-based leadership and decision making with processes of denial, entitlement, and self-reinforcing aggrandizement. For example, Stein (2011) identified LTCM as a narcissistic organization and observed that even when signs indicated the finance industry was entering a precipitous downturn, LTCM leadership ignored the warnings, exaggerating their own knowledge and skills while arrogantly viewing competitors with contempt and disdain. Driven by overconfidence in their market dominance, LTCM partners placed increasingly risky bets in an effort to demonstrate their superiority and triumph while other Wall Street companies began to collapse. However, LTCM's gambles did not pay off and the company teetered on the verge of bankruptcy, which might have potentially triggered a global financial crisis. Although LTCM's decline was self-imposed, the company was deemed 'too big to fail' by the US government and was bailed out using taxpayer money, setting a dangerous precedent that would be revisited a decade later during another Wall Street crisis: the 2008 financial industry implosion.[16]

As this study of organizational narcissism and the LTCM crisis demonstrates, it is fundamentally flawed to claim that crises always emerge 'out of the blue' from ambiguous causes. Indeed, LTCM has earned a place in business history as a classic 'mismanaged crisis,' in which crisis warning signs were evident and the organization had both the time and the ability to respond properly to avert disaster. Yet, due to the dysfunctional psychodynamics, LTCM did not perceive the urgency of the unfolding crisis.

To help investigate this point, I suggest that the following might better serve as a definition of crisis:

> A crisis is the perception of an unpredictable event that threatens important expectancies of stakeholders and can seriously impact an organization's performance and generate negative outcomes.[17]

This definition demonstrates that crises may emerge in unanticipated ways with severe organizational impact and can seem chaotic and unfold in an unpredictable manner. However, I argue, crises are not typically unexpected. Importantly, crises are also shaped by stakeholders' opinions based on perceptions of threat. Therefore, crises are subjective and can violate people's expectations about how organizations should act, making it difficult to comprehend the emerging evidence and creating periods of uncertainty. Depending on interpretations of the information available, those perceptions and expectations can generate a sense of urgency among some people and apathy among others who are less concerned about the unfolding dynamics. Therefore, crisis is in the 'eye of the beholder.'

Thus, crisis results from a combination of compounding organizational imperfections that slowly emerge in different locations over time, laying the groundwork for the crisis to occur.[18] During this transition period, it may still be possible to avert the crisis if people speak up, identify problems, and take corrective action. However, if organizational leaders remain in denial about the escalating risks, the situation can drift from normality to imbalance and then to crisis. Therefore, successful crisis management is less about rapid responses in high-pressure situations and