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Steven M. Walker  
*Gonzaga University*

Matthew P. Earnhardt  
*Embry-Riddle Aeronautical University, earnharm@erau.edu*

Jason M. Newcomer  
*Embry-Riddle Aeronautical University, jason.newcomer@erau.edu*

James W. Marion Jr  
*Embry-Riddle Aeronautical University, marionj@erau.edu*

Jon C. Tomlinson  
*University of Northwestern Ohio*

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Crisis Leadership During the Great Recession of 2008

Steven M. Walker  Instructor, School of Professional Studies, Gonzaga University
Matthew P. Earnhardt  Assistant Professor and Assistant Program Chair, College of Business, Embry-Riddle Aeronautical University—Worldwide
Jason M. Newcomer  Adjunct Assistant Professor, College of Business, Embry-Riddle Aeronautical University—Worldwide
James W. Marion, Jr.  Assistant Professor and Program Chair, College of Business, Embry-Riddle Aeronautical University—Worldwide
Jon C. Tomlinson  Associate Professor, Business Administration and Marketing, University of Northwestern Ohio

Abstract
Understanding leadership characteristics, frameworks, components, and contexts that are beneficial to the guidance of organizational policy is useful for understanding the way in which leaders should act during a crisis. Recessions are common throughout economies; yet, many see recessions as crises. Due to the chaotic nature of economic recessions, leaders must work in conditions of uncertainty, complexity, and volatility. Therefore, using a qualitative phenomenological approach, an examination was conducted on leaders’ lived experiences of the Great Recession of 2008 to further understand the concept of crisis leadership. A discussion is included on the way in which leaders internalize and analyze the crisis and the characteristics and behaviors needed to sustain through the crisis. This research was conducted in 2013.

Keywords
leadership, crisis, economic crisis, recession

The Great Recession lasted from December of 2008 until June of 2009 and was often referred to as the worst economic crisis since the Great Depression (Eagan, 2014; National Bureau of Economic Research, 2012). As a result of subprime mortgage defaults, some economists — such as Elliott (2012) — argued the Great Recession actually began in August of 2007 and hit a critical stage in September of 2008. Lehman Brothers, a financial services firm, filed for Chapter 11 bankruptcy protection on September 15, 2008. Two weeks later, the Dow Jones Industrial Average dropped 774 total points, making it the largest single-day point drop in the nation’s history. By the first quarter of 2009, American shareholders experienced a loss of over $1 trillion in wealth (Luhby, 2009).

In response to the foregoing, the United States federal government reacted to the crisis under the leadership of Presidents Bush and Obama. Congress passed the $700 billion Troubled Asset Relief Program (TARP) on October 3, 2008, with the intent to stabilize and restart growth in the economy (U.S. Department of Treasury, 2014). On February 17, 2009, President Obama signed the approximately $787 billion American Recovery and Reinvestment Act (ARRA), commonly referred to as the stimulus package. President Obama passed the ARRA to (a) create and save jobs, (b) spur economic activity, and (c) invest in long-term growth (U.S. Congress, 2009).

Crisis leadership is considered to be actions taken by a leader to bring immediate change in the behavior, beliefs, and outcomes of individuals (Keller, 2000). The intent of this article is to use the economic crisis experienced during the Great Recession to address the topic of crisis leadership through the eyes of leaders whose organizations experienced the crisis. Using a qualitative phenomenological approach, the leaders’ responses to the economic crisis were explored to further understand the concept of crisis leadership.

Literature Review
Crisis leadership refers to actions taken by a leader to bring immediate change in the behavior, beliefs, and outcomes of individuals (Keller, 2000). Further, crisis leadership often is practiced in response to an organizational crisis defined by Lincoln (2005) as a low-probability, high-impact event that
causes a significant disruption or threat to the organization. Crisis leaders, particularly in the modern era, have many difficult decisions to make, as numerous factors exacerbate difficult situations, such as media pressure, organizational chaos, and inaccurate information. Additionally, a leader must continuously scan the environment in search of potential crises (Thach, 2012). Leaders’ responses to organizational crisis will differ, yielding both effective and ineffective actions, as some tasks will be managed well and others will fail (Prewitt, Weil, & McClure, 2011). Given the critical role of leaders during an organizational crisis, and certainly the importance of events such as natural disasters and terrorist attacks, and in this instance a global economic collapse, it is important to analyze leadership’s response to major crises to further the understanding of crisis leadership. Therefore, critical to this 2013 study is an understanding of the definition of a crisis, the economic crisis known as the Great Recession, and the concept known as crisis leadership.

**The Crisis**

The *Merriam-Webster Dictionary* defined a *crisis* as “an unstable or crucial time or state of affairs in which a decisive change is impending, especially one with the distinct possibility of a highly undesirable outcome” (Crisis, n.d.). Crisis represents both the fragility and resilience of societies and organizations (Stern, 2013). Boin and Hart (2003) described crises as both dynamic and chaotic; they represent a disruption of the organization in several ways. Furthermore, it is important to remember that a crisis threatens an organization’s existence and causes catastrophic damage (such as death, injuries, or damage to an organization’s reputation) (Mitroff, 2005). A crisis is an event that causes extreme distress to an organization, including the nation. Though a crisis can be an ambiguous event that changes, based on the organization, several actions that should be considered are the need for quick decision making and the recognition that inaction could cause catastrophic results,threatening the priorities of the organization and increasing uncertainty (Van Wart & Kapucu, 2011).

It is critical to understand the nature of the crisis. Contrasting views can be found on the nature of a crisis, with some researchers believing crises are inevitable and others touting prevention. According to Fink (2000), a crisis can and will occur at any time, but a positive result can result if it is handled appropriately. Contrary to Fink (2000), Lagfaced (1993) argued a crisis is preventable if the key elements are understood and guidelines are established to help leaders deal with it. Similarly, Boin and Hart (2003) stated past crises could assist in the preparedness for and urgency of the situation at hand. Finally, Parker, Stern, Paglia, and Brown (2009) noted both optimism and pessimism are important in preventing a crisis.

While the Great Recession officially began in December of 2008, many economists consider September of 2008 as the crisis point. Within a period of two weeks, from September 15 through September 29, the financial services firm of Lehman Brothers filed for Chapter 11 bankruptcy protection and, subsequently, the Dow Jones Industrial Average dropped 774 points. At the time of its filing, Lehman Brothers was the fourth largest U.S. investment bank, and its bankruptcy filing is the largest in U.S. history. Six months prior to the Lehman Brothers filing, regulators chose to bail out Bear Stearns, another competing investment bank. This eventually led to a Federal Reserve-led acquisition of Bear Stearns by JPMorgan Chase, preventing a total loss by shareholders (Michel, 2013). One day following the bankruptcy filing of Lehman Brothers, the Federal Reserve announced that it would lend the insurance company of American International Group (AIG) $85 billion to avoid its collapse. On September 26, 2008, Washington Mutual (WaMu), once the nation’s largest savings and loan and sixth largest bank (“The 10 Largest,” 2009), filed the United States’ second largest bankruptcy in history. Thus, the economic crisis known as the Great Recession was born. However, it did not end with only financial firms, nor during that month. The U.S. auto industry that had, to that point, gloated was hit as well when General Motors (GM) filed Chapter 11 bankruptcy on June 1, 2009. GM’s bankruptcy was the fourth largest in U.S. history (“The 10 Largest,” 2009). Another third of the U.S. “Big 3” automakers, Chrysler, sold most of its assets to Italian automaker Fiat (Goldman, 2009).

When all was said and done, the stock market lost over half of its wealth by the first quarter of 2009, while housing prices fell by an average of 30%. Unemployment increased from 5% to 10% in a one-year period (Eagan, 2014). Gross Domestic Product was negative for seven consecutive quarters. The national debt went from 67% of GDP to over 103%. All of these events occurred while Presidents Bush and Obama spent nearly $1.5 billion shoring up the economy via TARP and the stimulus plan. Yukl (2013) contended that, during a crisis, leaders’ roles change as *subordinates expect more from them*. They need to be decisive, assertive, and in charge of the group response. Additionally, they need to communicate with the group. Hence, a discussion on crisis leadership follows.
Crisis Leadership

A crisis situation tests leaders and forces them to save the day through an effective response that protects others and minimizes consequences (Boin & Renaud, 2013). Kielkowski (2013) highlighted the crucial role of leadership in a crisis. Although a team of individuals working together is needed to overcome a crisis, the leader must guide the team and the organization through it, which is a difficult task (Ivanescu, 2011). An organizational crisis tremendously increases the pressure placed on leaders during the event, resulting in heroes or even scapegoats (Boin & Hart, 2003). Therefore, of importance in understanding the manner in which a leader must guide the team, an understanding of crisis leadership is important, as well as the traits and skills a leader should exhibit. Crisis leadership refers to actions taken by leaders to bring about immediate change in the behavior, beliefs, and outcomes of individuals (Keller, 2000).

Several authors have offered input on the roles and responsibilities of an effective crisis leader. These range from acting critically, sensemaking, training and crisis preparation, creating loyalty, identifying organizational weaknesses, and modeling (Hart, Tindall, & Brown, 2009; Jaques, 2012; Lawton, 2013; Mullins, 2003). Kielkowski (2013) added communication with the team is essential for response, which includes communication between leaders and followers, peers, and external and internal stakeholders. In addition to the characteristics of a leader in a time of crisis, the public has several expectations of leaders (Boin & Hart, 2003), which include being prepared, warning others of the crisis, providing direction, showing empathy, and striving to learn and implement lessons. These characteristics can serve a leader well and help to create a post-crisis prosperous event. However, it is dangerous to try to use the event to push unnecessary reform, and this action should be avoided at all costs (Boin & Hart, 2003). Of importance is the public’s differing perceptions of public and private organizations that are undergoing a crisis. The expectation is that private leaders focus on competitive issues, while public leaders should focus on support and volunteers to mitigate the crisis (Thach, 2012). It also is crucial that, during a crisis, the leader recognizes the existence of the crisis; i.e., the worst-case scenario has materialized and immediate action and engagement in the crisis is critical (Hart et al., 2009).

Prewitt et al. (2011) recommended leaders use several techniques to change the stress of crisis leadership. In discussing various types of leaders, Ivancevich, Konopaske, and Matteson (2005) reported crisis-based leaders handle situations in which prior knowledge, resources, etc., may be inadequate. Several researchers (Boin & Hart, 2003; Hart et al., 2009; Jaques, 2012; Lawton, 2013) have indicated a crisis challenges leaders to develop several skills. Through the cultivation of these attributes, crisis leadership positively affects the economic, existential, emotional, and spiritual bottom line as they learn and grow through crises (Mitroff, 2005).

One final distinction must be made — crisis leadership versus crisis management. While the terms may be used interchangeably in colloquial English, Wooten and James (2008) utilized the term leadership competencies to identify the knowledge; skills; and abilities needed for task performance, to include activities such as: (a) decision making, (b) communicating, (c) creating organizational capabilities, (d) sustaining organizational culture, (e) managing multiple constituencies, and (f) developing human capital. Wooten and James commented further that these competencies can help to manage human resources and operational and strategic functions. Citing numerous authors, Wooten and James identified five phases of a typical business crisis: (a) signal detection, (b) preparation and prevention, (c) damage containment, (d) recovery, and (e) learning. Using a phenomenological approach, an understanding of Wooten and James’ framework, in combination with Keller’s (2000) definition will assist in an analysis of leaders’ responses to the economic crisis known as the Great Recession of 2008 in an attempt to gain further understanding of the concept known as crisis leadership.

Research Question

The central research question for this study was: What were leaders’ behaviors in the midst of organizational crisis, as revealed and influenced through the experience of the Great Recession of 2008?

Methodology

Understanding the role of the leaders’ experiences during a crisis required a deep immersion into the phenomenon. Qualitative research was most appropriate to provide depth of scholarship through immersion into the leaders’ lived experiences (Merriam, 2009). As suggested by Moustakas (1994), interviews provided a holistic approach to the phenomena being studied in the sense that multiple subjective experiences were uncovered through the interview process. To adequately answer the research question, a qualitative phenomenological study using semi-structured interviews was employed to understand the lived experiences of the participants.
Understanding the Concept of Crisis Leadership

An examination was conducted involving leaders representing large and small organizations in the Northwest. These organizations included the fields of finance, investments, healthcare, litigation, manufacturing, grocery outlet, and education. The intent of selecting business and organizational leaders from both large and small organizations and in diverse fields increased the opportunity to represent a range of perspectives within the economic complex. The businesses and organizations were selected based on their location, size, and the research team’s awareness of the institution through professional networking. Each participant was chosen to represent the specific fields. The foregoing ensured maximum variation, afforded the greatest opportunity to understand the phenomenon, and justified the sampling technique (Korns, 2009; Suri, 2011).

In-person and semi-structured interviews were held regarding the topical protocol outlined in Table 1. Each interview was 60-90 minutes in length, audio recorded, and transcribed. Follow-up interviews were conducted with two of the participants to obtain clarification on the content of their initial interview; this process — referred to as member checking — was used to certify the validity of the data (Thomas & Magilvy, 2011). Data validity was strengthened by the identification of themes across multiple interviews, the number of instances in which the themes appeared, and, finally, the continuous comparison of the content of the identified themes (Moustakas, 1994). Reliability in research is developed through the consistent application of research techniques (Creswell, 2007). Analysis of the interviews (Moustakas, 1994) was conducted using the following process:

1. Each interview was recorded, transcribed, and loaded into NVivo 9.
2. Each interview was analyzed for statements that appeared to capture the essence of important phenomena related in the responses.
3. Each instance of statements or descriptions of salient phenomena was identified as a theme and coded, as well as recurring instances of identified themes.
4. The coded items were ranked in terms of the number of interviews in which they appeared, as well as the total overall instances in which they appeared.
5. The coded themes were then divided into groups according to rank and compared within the grouping in order to develop an understanding of the relationship between the themes. The relationships were then highlighted graphically.
6. Each subsequent ranked grouping of themes was overlaid on the primary diagram in order to view both primary, secondary and tertiary theme relationships.

Table 1. Interview Protocol Questions

<table>
<thead>
<tr>
<th>Order</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>On September 15, 2008, the financial services firm Lehman Brothers filed for Chapter 11 bankruptcy protection, which was the largest bankruptcy filing in U.S. history. Two weeks later on September 29th, the Dow Jones dropped 774 total points, which was the largest single-day point drop in United States history. Please tell me a story about what it was like in your organization on those days.</td>
</tr>
<tr>
<td>2</td>
<td>How would you describe your leadership within your organization during the economic collapse of 2008? How did your understanding of leadership at the time affect how you ran your organization during the collapse and the months following?</td>
</tr>
<tr>
<td>3</td>
<td>Please take me into a positive experience that stemmed from the recession.</td>
</tr>
<tr>
<td>4</td>
<td>Please take me into a negative experience that stemmed from the recession.</td>
</tr>
<tr>
<td>5</td>
<td>Please describe the thoughts, feelings, and perceptions you experienced the months following the economic collapse.</td>
</tr>
<tr>
<td>6</td>
<td>Have your thoughts, goals, or behavior, both personally and within the organization, changed in any way due to the experience of the 2008 Recession? If so, please describe them to me.</td>
</tr>
<tr>
<td>7</td>
<td>Would you please describe the most transforming moment throughout the entire experience of the recession.</td>
</tr>
</tbody>
</table>

1 NVivo 9 is qualitative analysis software that applies some statistical functions to qualitative data based on theme frequency as it is determined by a similarity index. Figure 1 is a graphical product of that analysis which displays the correlations between themes at various levels. More information on NVivo and how it calculates qualitative relations can be found at http://help-nvivo.qsrinternational.com/desktop/deep_concepts/how_are_cluster_analysis_diagrams_generated.htm
Discussion

An analysis of the aggregate content from the interviews revealed several themes. Three primary levels of content were discovered within the themes and grouped accordingly. Tables 2, 3, and 4 list each theme for the respective level, and Figure 1 demonstrates the logical connections between the content. The result is a logical model of the crisis leadership themes associated with this study.

Each Level 1 theme was compared with others in that frequency group to draw conclusions on the relationship between crisis aftermath, crisis communications, crisis action, lessons learned, and crisis leadership style. The relationship, depicted in Figure 1, demonstrates a logical linkage that starts with crisis action and continues through crisis aftermath to lessons learned. Based on a leader’s crisis action, leadership style and communications greatly impacted the aftermath; however, no direct logical connection was noted.

Each Level 2 theme was compared with others in that frequency group to draw conclusions on the relationship between negative experience, crisis mindset, positive experience, uncertainty, leadership change, and the Level 1 themes. The relationship demonstrated a series of logical linkages that contributed to the Level 1 theme. To a moderate degree, positive and negative experiences impacted the uncertainty and mindset of a leader during a crisis. The resulting aftermath also moderately impacted the need or desire for a change in leadership.

Each Level 3 theme was compared with others in that frequency group to draw conclusions on the relationship between recalling events, attitude, preparation, anticipation of a crisis, and the remaining Level 1 and Level 2 themes. The relationship demonstrated a series of logical linkages that connected to the Level 1 and Level 2 themes. To some degree, the anticipation of — and preparation for — a crisis impacted the leader’s actions. The analysis yielded a relationship between the leader’s attitude and mindset; it provided depth of understanding to the impact of recalling crisis events on lessons learned following the crisis aftermath.

Level 1 Themes

<table>
<thead>
<tr>
<th>Name</th>
<th>Interviews</th>
<th>Theme Count</th>
<th>Overall Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis Aftermath</td>
<td>7</td>
<td>38</td>
<td>266</td>
</tr>
<tr>
<td>Crisis Communications</td>
<td>7</td>
<td>22</td>
<td>154</td>
</tr>
<tr>
<td>Crisis Action</td>
<td>7</td>
<td>21</td>
<td>147</td>
</tr>
<tr>
<td>Lessons Learned</td>
<td>6</td>
<td>18</td>
<td>108</td>
</tr>
<tr>
<td>Crisis Leadership Style</td>
<td>7</td>
<td>15</td>
<td>105</td>
</tr>
</tbody>
</table>

Level 2 Themes

<table>
<thead>
<tr>
<th>Name</th>
<th>Interviews</th>
<th>Theme Count</th>
<th>Overall Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative Experience</td>
<td>6</td>
<td>13</td>
<td>78</td>
</tr>
<tr>
<td>Crisis Mindset</td>
<td>5</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>Positive Experience</td>
<td>7</td>
<td>10</td>
<td>70</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>5</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Leadership Change</td>
<td>6</td>
<td>10</td>
<td>60</td>
</tr>
</tbody>
</table>

Level 3 Themes

<table>
<thead>
<tr>
<th>Name</th>
<th>Interviews</th>
<th>Theme Count</th>
<th>Overall Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recalling Crisis Events</td>
<td>5</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Crisis Attitude</td>
<td>4</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Preparation for Crisis</td>
<td>2</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Anticipation of Crisis</td>
<td>3</td>
<td>7</td>
<td>21</td>
</tr>
</tbody>
</table>
The results revealed that the action of the leaders had a significant impact on overcoming the crisis. One interesting discovery was anticipating and preparing for the crisis were critically important and impacted the leader’s actions during and post crisis. This finds congruence with the literature on the importance of preparing for and anticipating a crisis (Hart et al., 2009; Jaques, 2012; Lawton, 2013). As noted by Thatch (2012), scanning the environment and searching for a crisis is an important role of leadership. Several individuals commented their foresight was responsible for their organization’s ability to plan and prepare for the recession. Prior to the recession, the leaders who were interviewed indicated they internalized and analyzed the economy in a holistic perspective that allowed them to identify linkages between their field and others and the ripple effects that would occur as a result of specific breaking points such as the stock market crash or the Lehman Brothers bankruptcy. This holistic perspective enabled these leaders to observe the formation of a crisis in advance of the breaking points and, therefore, initiate the necessary steps in order to prepare for it.

Another finding was the way in which the leaders perceived the crisis. Most viewed the crisis as an opportunity and attempted to consider it in a positive light. One leader perceived a crisis as not only a learning opportunity, but also a chance to innovate and think outside the box. This leader argued that organizations tended to become passive during a stable economy. During chaotic times, the anxiety created an increase in motivation for both leaders and employees. If this motivation was properly harnessed, it could be advantageous to the organizations.

Decisive actions and communication throughout the crisis were found to be important for not only the preparation for the crisis, but also for leadership during the crisis. Kielkowski (2013) discussed the importance of communication before, during, and after a crisis; the results of this study found this to be true. Leaders indicated that communicating with internal and external stakeholders — from employees to protesters such as the Occupy Wall Street movement — greatly aided in identifying, responding to, and developing an action plan in order to prevent future crises. The role of open and honest communication is important to understanding the complex nature of the crisis and helping the leader to form a mindset in order to navigate the organization through the crisis and, in some way, framing their experiences in the crisis. One individual altered the negativity of the Occupy Wall Street event into a positive for the organization by meeting with protestors and mutually discussing concerns. This allowed the leader to show transparency in the organization’s response to both proponents and detractors. Another leader held town hall

**Figure 1. The 2008 Great Recession Crisis Leadership Model**

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meetings throughout the crisis in order to communicate to both the media and the community regarding the organization’s plans, goals, and vision to move forward throughout the recession. This transparent and open form of communication at all levels and with all stakeholders was perceived by the leaders to foster a sense of trust between all members of the organization. Whether employees or customers, one of the goals of leadership throughout the crisis was that any and all individuals who held a stake in the organization felt the truth was being communicated, whether good or bad.

This strong sense of trust that was created through the open communication of the organization also led to many collaborative opportunities during the crisis. Several individuals remarked that the goal during the crisis was not to compete; rather, it was to collaborate. The leaders felt that collaboration, rather than competition, allowed them a better opportunity to survive. One organization was able to collaborate with another competitor to split the use of a building and, therefore, the associated cost. This was a way in which both organizations could partner and create a solution for both to cut costs. Two other organizations merged in order for both to survive. Their complementary resources provided them with the opportunity to overcome the economic crisis.

Another finding involved the vitality of organizational values. Several leaders indicated that the values and mission of the organization could easily be taken for granted in positive economic times. When the economic crisis hit, the values and mission helped the leaders in narrowing their focus and became a helpful backdrop on which to fall when deciding the courses of action to take.

Recommendations

Several recommendations were noted. The first was to continue to explore the role of crisis in leadership. This topic is far from exhausted, and additional efforts are needed to identify the traits and responses of leaders during crisis. An interesting research area could involve investigating and interviewing leaders who did not successfully navigate the Great Recession of 2008. Can future leaders identify certain characteristics, such as closed communication, from which they can learn? Do they view the recession as a negative experience, or do they perceive it as positive, as occurred with the leaders in the study? An additional area for study could involve the level of support and resources for organizations that have experienced a crisis and emerged successfully. Do organizations that have successfully emerged from a crisis do so on their own, or did government or private support help them? If they received support (financial or other), what was the impact on both the leader and the organization? Finally, more studies are needed in other countries to understand the conscious experience of the global recession in other cultures and to compare results. The literature on this subject is mixed, and additional studies could provide insight on the issue of crisis leadership.

Conclusion

The Great Recession of 2008 was a major crisis that impacted not only the global economy, but also organizations across the United States. A crisis is a dynamic and threatening disruption to an organization (Boin & Hart, 2003). Crisis leaders, particularly in the modern era, are required to make numerous difficult decisions, as many factors exacerbate the situations, such as media pressure, organizational chaos, and inaccurate information. Leaders’ responses to organizational crises will differ, yielding both effective and ineffective actions, as some tasks will be managed well and others will fail (Prewitt et al., 2011). By grasping and understanding the manner in which leaders respond to a crisis, insights can be gained into crisis leadership. This study found that preparation for a crisis, and the actions of the leader during and after it, have a significant effect on the success of navigating through it. Also important to organizational success is open communication with internal and external stakeholders.

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