Effective Leadership in Times of Organizational Crises : The Interplay of Risk Perceptions, Trust, and Diversity

** Carl Osunde*
*** Agboola Gbenga Mayowa*

Abstract

Organizations are faced with challenges which arise from the interplay of risk perceptions, trust, and diversity. Diversity is a broad term which highlights numerous differences and similarities in an organization in the areas of culture, age, qualification, gender, and attitudes in the workplace. Risk perceptions may have a more dominant impact on trust and leadership effectiveness than previously assumed. Trust has been identified as being essential in the effectiveness of charismatic leaders (Bass, 1985) and as being critical when leaders communicate information regarding a risky situation or crisis (Kasperson, Kasperson, Pidgeon, & Slovic, 2003). Too often, risky situations are explained rationally by leaders and experts who are then surprised when these communications are distrusted or rejected. Research, though limited, has found that an individual's affect-based perception of the risk significantly impacts whom and what we trust. The role of culture in how risks are perceived and experts are trusted is even less clear. Bringing together extant theory on leadership, perceived risks, trust, and culture, the present paper addresses how these forces impact trust and leadership effectiveness in an organizational setting and how effective leadership can create high impact in an organization.

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Leadership is organizing a group of people to achieve a common goal. The leader may or may not have any formal authority. Studies of leadership have produced theories involving traits, situational interaction, function, behaviour, power, vision and values, charisma, and intelligence among others. A leader is somebody whom people follow, somebody who guides or directs others. A frequently cited descriptive definition is that developed by Pearson and Clair (1998): "An organizational crisis is a 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" (p. 60).

In this paper, we look at leadership effectiveness during the times of organizational crisis by exploring the interplay between trust, risk factors, and national cultures. We begin with a discussion of organizational crises versus diverse cultures, the nature of trust as an evolving concept in the management and cross-cultural literature. We then suggest how elements of risk (actual and perceived) impact the development of trust between leaders and their subordinates in an organization.

Organizational Crises Vs. Diversity Management

Diversity applies to all employees and does not only encompass certain arbitrary differences, but the entire spectrum of individual differences that makes people unique. Therefore, diversity cannot be viewed as only racial or religious differentiation, but as all differences combined. Concept of diversity describes differences among people as well as similarities. The discipline of managing diversity requires that these two facets are managed simultaneously. Managers are expected to integrate the collective mixture of similarities and differences between workers into the

* *Senior Lecturer in Organizational Behaviour and Head of the Department,* Tansian University, Oba, Anambra State, Nigeria. E-mail: osundecj@gmail.com
** *Assistant Lecturer in Business Administration,* Department of Business Management, Covenant University, Ota, Ogun State, Nigeria. Email: gbenga.agboola@covenantuniversity.edu.ng

organization. As such, diversity can be described as having four layers (Kreitner & Kinicki, 2001 , p. 38):

- **Personality:** This describes a stable set of characteristics that establishes a person's identity.
- **Internal Dimensions:** These are characteristics that strongly influence people's attitudes, perceptions and expectations of others. These include factors such as age, race, gender, sexual orientation, ethnicity, and physical ability.
- **External Dimensions:** These dimensions are personal traits on which we can assert a certain amount of control or influence. They are factors such as income, personal and recreational habits, religion, education, work experience, appearance, marital status, and geographic location.
- **Organizational Dimensions:** These dimensions pertain to the organization itself and include factors such as work field, division or unit, seniority, union affiliation, management status, and functional level.

Leadership is faced with a decision as to what definition of diversity management it wants to apply. Although the definition that is supported by employment equity considerations is more easily implemented, it does not provide optimal value as the broader definition's application would. The models put forward are not a complete reference as to how diversity should be managed. Leadership can, however, be confident enough to apply these principles in the everyday and strategic management of diversity. Leadership must be aware that the management of diversity not only creates a healthy working environment, but also translates into long-term profit and growth. Leadership must be totally committed to diversity management programmes and make efforts for it to be successful.

The management of diversity are also subject to several potential challenges that decisive leadership must overcome. The most common barriers to the implementation of diversity programmes to overcome organizational crises are (Kreitner & Kinicki, 2001 , p.53):

- **Inaccurate Stereotypes and Prejudice:** If differences are viewed as weakness, diversity management efforts will be viewed in the same light, and competence and quality will be sacrificed.
- **Ethnocentrism:** This mode of thinking allows one to enforce on others their culture and values because they believe that is superior to others.
- **Poor Career Planning:** Opportunities for diverse people to advance are not actively sought out and presented to deserving candidates.
- **An Unsupportive and Hostile Working Environment for Diverse Employees:** Diverse employees are excluded from social activities and are thus prevented from forming networks with other employees.
- **Lack of Political Initiative or Ability on the Part of Diverse Employees:** Diverse employees do not advance because they are not knowledgeable about power networks and how to get involved in office politics. Women are particularly susceptible to this challenge as they are not always viewed as equals.
- **Difficulty in Balancing Career and Family Issues:** Women are also most likely to be presented with this challenge. In modern cultures, women are still expected to take care of young children and manage the household. Although attitudes are shifting, women still bear the greatest household responsibilities.
- **Fears of Discrimination:** A major problem is the feeling that diversity efforts are reverse discrimination. Whether this is due to a sense of entitlement or genuine losses by some individuals, this is still a widely held belief among undesignated groups.
- **Diversity is Not Seen as an Organizational Priority:** Employees may not view diversity efforts as work contributing to the overall success of the organization. As such, these tasks delegated by leadership to employees are not effectively performed.
- **The Need to Revamp the Organization's Performance Appraisal and Reward Systems:** The management of diversity as success criteria need to be added to reinforce diversity efforts. If these success criteria are not implemented in appraisals, employees will never view it as necessary work.
- **Resistance to Change:** People resist change for many different reasons like fear of change, peer pressure, fear of

failure, or a climate of mistrust. The management of diversity requires organizational and personal change.

It is up to the leadership to overcome these challenges by properly informing and managing changes and perceptions among groups who perceive they are threatened. The following models describe actions an organization may perform in the discipline of diversity management.

Leadership and Change Management

Because a change in perception is implied, leadership may need to adhere to change management principles (Kinicki, & Kreitner, p. 668). Kotter (2012) advises leadership to implement change management by not failing to:

- **Establish a Sense of Urgency:** Leadership must provide a compelling reason to accept diversity management principles.
- **Create a Guiding Coalition:** People with influence and power need to lead this change.
- **Develop a Vision and Strategy:** A strategic plan with the goal of effective integration of diversity into everyday day business needs to be formulated.
- **Communicate the Change Vision Effectively:** This goal and vision must be consistently communicated in clear terms to all affected.
- **Empower Broad-based Action:** The barriers to diversity management must be addressed and eliminated.
- **Generate Short-term Wins:** By setting small achievable goals, progress will become more visible.
- **Consolidate Change and Produce More Change:** The coalition for change must build on short-term wins.

The Nature of Trust

- **Trust in Leadership - An Evolving Theoretical Concept :** Trust has been described as a critical component in reducing the fear associated with the perceived risks of a crisis (Kasperson, Kasperson, Pidgeon, & Slovic, 2003). Therefore, to more fully understand how a leader can reduce fear, one must also understand the role trust plays in leadership and in crisis response. Trust has commonly been looked upon as a significant component of cooperation, conflict resolution, and economic exchange (Deutsch, 1958; Deutsch, 1973; Gambetta, 1988). As leadership theory advanced from individual attributes of leaders to the interaction of leaders with followers, the role of trust became central in defining effective leaders (McAllister, 1995). Bass (1985) described trust as a key element in establishing a lasting and transforming relationship between followers and leaders. Studies have also shown that charismatic leaders draw heavily upon trust to acquire the mass support needed to accomplish visionary change (Fiol, Harris, & House, 1999). Yet, trust as a theoretical concept has been hard to define and ,therefore, hard to operationalize.

The dictionary defines trust as “assured reliance on the character, ability, strength, or truth of someone or something” (Webster's 9th edition Collegiate Dictionary) yet, it is commonly acknowledged that there is no universally accepted scholarly definition of the construct (Rousseau, Sitkin, Burt, & Camerer, 1998). One view of trust is that, it is directed to the future, while being based upon experience and, as such, is an intrinsically fuzzy phenomenon (Clases, Bachmann, & Wehner, 2003). Another view is that it is a belief predicated not on the existence of evidence, but on the lack of contrary evidence (Gambetta, 1988). Still, another description of trust is that it is a phenomenon based upon predictability, dependability, and faith (Das & Teng, 1998). Drawing upon Mayer, Davis, and Schoorman (1995), Rousseau et al. (1998) described trust as a cognitive decision to make oneself vulnerable to another. As a theoretical concept, this definition of trust has been incorporated into many recent investigations into the construct. International investigations into trust have not verified this notion of willingly becoming vulnerable to others (Yamigishi, T., & Yamigishi, M., 1994). However, the willingness to trust in some manner appears to be a universal aspect of human behaviour, even as scholars try to define it from a cultural perspective.

- **Trust Across Cultures :** Trust has been described as a psychological state (Kramer, 1999). Like all psychological states, trust assumes different meanings based upon the cultural settings within which individuals live. For example, Triandis (1972) found significant differences in the ways that cultures in Greece, India, Japan, and the United States viewed the causes and outcomes of trust. Two of the most frequently mentioned antecedents that varied across these four national cultures were understanding and the ability to keep secrets. Variations in the consequents of trust across cultures ranged from loyalty and admiration to the potential of being taken advantage of.

In his seminal work on culture, Hofstede associated trust with the cultural dimension of uncertainty avoidance. Although he did not explore the concept directly, he found similarities between the items he used to measure uncertainty avoidance and the items used by the European and World Values Studies that measured trust and tolerance (Hofstede, 2001). As trust research has undertaken an international lens, it has become clearer that the idea of willingly becoming vulnerable (defined by Rousseau in 1998 as a critical aspect of trust) may be a cultural emic (Bhawuk, 2004). For example, Yamagishi et al. (1994) in a comparative study of trust in Japan and the United States discovered that Japanese citizens reported much lower levels of trust as compared to their American counterparts. This was contrary to theory, which predicted that collectivistic cultures, with their emphasis on groups and group identity, should have higher levels of trust than individualistic cultures that focus upon the individual and individual identity. Upon further research into this anomaly, Yamagishi et al. (1994) proposed that there is an important distinction between generalized trust and assurance in Japan. Because Japan is characterized as being rich in interpersonal and inter-organizational relationships, vulnerability exists among individuals of the same in-group at a level deeply embedded within the psyche of the individual. As a result, trust is implicitly rather than explicitly given. In the United States, where this depth of interrelatedness does not exist, the willingness to be vulnerable is a cognitive choice called trust, which in turn makes trust much easier to recognize in the United States than in Japan. Even though becoming vulnerable willingly to another may indeed be a cultural emic, the feeling of being vulnerable and the need to reduce that feeling is a cultural etic experienced by all people everywhere.

While most theories consider vulnerability and trust within a context of stable social conditions, all people experience a sense of vulnerability when exposed to a risk. This sense is heightened when the risk is related to a crisis. In those circumstances, people especially look to their leaders for guidance and safety. Whether trust is looked upon as a willingness to become vulnerable to another (a more individualistic description of trust) or as compliance with one's in-group to maintain safety (a more collectivistic description), there is a correlation between risk, trust, and, ultimately, leadership.

➯ **The Nature of Risk in the Development of Trust:** Most theoretical models of trust either do not consider risk (McKnight, Cummings, & Chervaney, 1998) or consider it only as a condition related to behavior after trust has been established (Hung, Dennis, & Robert, 2004 ; Mayer et al., 1995). This is surprising, given the prominent role that risk has in many descriptions of trust. For example, some trust researchers state that risk mediates trust or view trust and risk as being in a reciprocal relationship (Das & Teng 1998; Das & Teng, 2001). Others state that risk presents a test for trust (Dasgupta, 1998). When risk has been considered in relationship to trust, it is generally considered in a rational and scientific manner (Hung et al., 2004 ; Mayer et al., 1995; Williamson, 1993). Concomitantly, it is assumed that the level of vulnerability that an individual is willing to accept is predicated on the cognitive assessment of risk specific to a particular behaviour, which then is mitigated by previously established levels of trust towards another (Mayer et al., 1995).

Several scholars have begun to question the notion that risk assessments are driven only by rational assessments of benefits and losses (Slovic, 1997, Finucane, 2004). Their field studies demonstrate that rational assessments of risk are not a strong predictor of trusting behaviors (Slovic, Kunreuther, & White, 1974; Slovic, Fischoff, Lichtenstein, Corrigan, & Combs, 1977; Slovic, Fischoff, & Lichtenstein, 1978; Slovic et al., 1980; Slovic, MacGregor, & Kraus, 1987; Slovic, Flynn, & Layman, 1991). Consequently, they assert that risk assessments are frequently driven more by emotions and less by rational assessments, especially in times of crises. Slovic (1987) proposed that risk has two emotional dimensions: Dread (something that has the potential of being catastrophic) and uncertainty (something that is unobservable and unpredictable). Together, these dimensions create a risk that transcends what can be rationally analyzed and assessed. Hence, trust in experts and leaders may be driven more by emotion and less by cognition.

Exploring the Interplay Between Concepts : Proposition Development

➯ **Crises, Risks, and Expert Power in Leaders :** Expert power has been identified as an attribute of leadership (Bass, 1985) as well as an antecedent condition in the development of trust (Mayers et. al, 1995). Expertise has also been shown to be a dominant attribute of trust in leadership under varying conditions of risk or situational vulnerability (Lapidot, Kark, and Shamir, 2007). The literature indicates what appears to be a strong correlation between crisis, the perceived risks that they create, and the need for expertise in leadership. Risk has been recognized by scholars as being significantly correlated to the establishment of trust and the quality of decision-making (Das & Teng 1998, 2001; Dasgupta 1998; Slovic, 1987; Finacune, 2004). Yet, Meyerson, Weick, and Kramer (1996) as well as Slovic (1996) have described circumstances where an increasing sense of uncertainty reduces a general willingness to trust, more specifically, to trust experts. Meyerson et al. (1996) theorized that as risk and uncertainty increases, individuals make a stronger cognitive effort to analyze the risk and ,therefore, trust in experts and the information they provide will diminish.

Confirming Meyerson's hypothesis, Slovic (1996 & 1997) found empirical evidence that indicated that as perceived risks increased, trust in experts decreased. Slovic (1997) also found that dread, which is the feeling of catastrophe, is stronger in determining whether experts would be trusted than uncertainty. Contrary to Slovic, Bechtold, Bhawuk, & Tung (2010) found that when dread and uncertainty were both high, there was an increased trust in experts. Further analysis indicated that these contradictory results were due to the type of risk being surveyed.

Slovic (1996 & 1997) presented catastrophes related to nuclear power and other personal behaviour risks to prime feelings of perceived risk whereas Bechtold et al. (2010) presented scenarios describing infectious diseases and the potential that these diseases may have of creating epidemics and global pandemics. Bechtold et al. (2010) proposed that ultimately, the ability to prevent nuclear power plants from being built created an overriding sense of control over the risk that was lacking when exposure to infectious disease such as SARS or swine flu is being considered as a risk. It was postulated that the lack of control, or sense of control, over the risk has an effect of raising levels of uncertainty which, when coupled with high levels of dread, causes individuals to place higher levels of trust in experts.

➢ **Affect Decision Heuristics and Trust in Leaders :** Crises by definition are both unexpected and poorly defined (Bedell-Avers, Hunter, & Mumford, 2008). They create a sense of risk that is often not rationally assessed, but rather, is tied to emotions and emotionally driven decision heuristics (Finucane, Alhakami, Slovic, & Johnson, 2000). These emotions and concomitant heuristics can impact the way that leaders craft "sense-making" messages as well as the extent to which these messages and the leaders themselves are believed. Emotionally driven decision heuristics are also influenced by national culture and cultural values that can lead to different interpretations of the risks and the crisis as well as different responses to the crisis by leaders and followers. Funucane et al. (2000) found that emotion not only affects how individuals perceive risks, but it also creates its own heuristic in how individuals assess information and make decisions about the risk.

These affect decision heuristics are loosely based tools that individuals use to reduce the cognitive load in decision making. They are not a rational assessment of the information concerning the risk, but rather, they are a "gut feel" response to the information. Like all heuristics, they are based upon experience, social convention, or a combination of both. Slovic, Finucane, Peters, and MacGregor (2004) also found that when a risk had a significant affect component associated with it, an individual would respond more favourably to information that confirmed preconceived notions about the risk and discount information that disagreed with that notion. For example, scientific confirmation that global warming is significantly caused by human activities would be more readily accepted by people who believe that increasing temperatures are being caused by human beings and will be less readily accepted by those who believe that it is a natural cycle of nature. This belief, or disbelief, can be so strong that individuals may reject information that has been scientifically proven beyond any reasonable doubt or accept information that has been repeatedly demonstrated to be inaccurate.

The affect decision heuristic is composed of both risk qualities (dread and uncertainty) described by Slovic (1987). It, therefore, seems reasonable to assume that this heuristic would also be influenced by the nature of the risk. For example, when a risk has a high potential for catastrophic outcomes (high dread risk), but is more predictable with regard to who it would impact and in what ways (low uncertain risk), then people would more readily reject expert opinions that advocated a need for change and accept opinions that would advocate maintaining the status quo. Once established, this affect decision heuristic would be used to filter any additional information that would advocate the need for change. On the other hand, when a risk is perceived to have a high potential for catastrophic outcomes (high dread risk), and an equally high potential to have an impact on anyone at any time (high uncertain risk), then the affect decision heuristic would endorse expert opinions that advocated a need for change, even radical change, that could reduce the potential catastrophic outcome or exposure rather than opinions that endorse maintaining the status quo. This protection from the risk may include a dramatic shift away from the behavior (as appeared to be occurring regarding global attitudes towards nuclear power after the disaster in Fukushima, Japan) or even away from established leaders and institutions. Consequently, we propose the following:

↳ **Proposition 1 :** When perceived risk is high in dread (catastrophic) perceptions, but low in uncertainty (unpredictable) outcomes, trust in experts will be diminished.

↳ **Proposition 2 :** When perceived risk is high in dread (catastrophic) perceptions, and high in uncertainty (unpredictable) outcomes, trust in experts and leaders will be increased.

This nuanced view of risk and trust reinforces Slovic's (2000, p.2) belief that while "danger is real, risk is socially construed". The social construction of risk also would suggest that cultural settings have an impact on risk perceptions and trust.

Managerial Implications

The overall objective of this research paper is to create awareness of the importance of trust and effective diversity management in the creation of a healthy working environment considering the manager's role as a leader to enhance cooperation and performance in the organization in times of organizational crises. Therefore, managers must exhibit leadership traits and move beyond the normal tasks of planning, organizing, and control. Managing trust and diversity is a business imperative, strategic priority, and a competitive necessity. Potentially demoralizing situations exist, such as the uncertainty of the effects of distrust and cultural diversity within the organization. These situations need to be managed in such a manner that it would have a minimum effect upon the morale of the staff and the productivity of the organization. The implementation of changes in the organization need to originate from strong leadership in order to overcome potential resistance to such changes.

A centralized decision-making model is well suited for this purpose as all changes can be coordinated and enforced, if need be. One of the strategic leader's main responsibilities is to create an environment and organizational culture that enables the organization to deal with the issue of trust and diversity in times of organizational crises. Many decentralized decisions need to be made regarding empowerment and identifying employees for advancement. Line managers need to have the power to implement tactical decisions to fit in with the overall strategic vision of the organization as it relates to diversity management in their relevant scopes of leadership.

It must ,therefore, also be understood that employees are empowered by the organization's vision and direction. These goals can only be reached by an organization that exhibits and develops entrepreneurship and innovation in its corporate culture.

Conclusion

Trust in organizational leaders is heightened or diminished when the organization is perceived to be in a crisis. Risk has been recognized by scholars as being significantly correlated to the establishment of trust and the quality of decision-making and perceived risk has a significant affect component associated with it. An individual would respond more favourably to information that confirmed preconceived notions about the risk and discount information that disagreed with that notion in an organizational setting. There is a strong correlation between crisis, the perceived risks that they create, and the need for expertise in leadership. Expertise has also been shown to be a dominant attribute of trust in leadership under varying conditions of risk, or situational vulnerability, and diverse work force. Effective leaders overcome organizational crisis by properly informing and managing changes and perceptions among groups who perceive they are threatened.

Diversity should be seen as an organizational priority and employees need to be encouraged to view compliance with diversity efforts as work contributing to the overall success and growth of the organization. As such, these tasks delegated by leadership to employees should be effectively performed. The management of diversity as a success criteria needs to be added to reinforce diversity efforts. If these success criteria are not implemented in appraisals, employees will never view it as necessary work. People resist change for many different reasons, especially due to mistrust. The management of diversity requires organizational and personal change to accept diversity within the organization and create trust between leadership and the employees.

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