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Ethical Rationality: A Strategic Approach to Organizational Crisis

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ABSTRACT. In this paper, we present an ethical and strategic approach to managing organizational crises. The proposed crisis management model (1) offers a new approach to guide an organization's strategic and ethical response to crisis, and (2) provides a two-by-two framework for classifying organizational crises. The ethically rational approach to crisis draws upon strategic rationality, crisis, and ethics literature to understand and address organizational crises. Recent examples of corporate crises are employed to illustrate the theoretical claims advanced. Finally, the paper provides guidelines for a morally optimal outcome for the organization and its stakeholders.

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While significant effort has been dedicated to various approaches to evaluating a company's ethics (e.g. Nicholson, 1994), organizations are also judged by their actions during a crisis. In demanding and uncertain circumstances, the ethical commitments of an organization are tested as its available options decrease. Thus, crises challenge the explicitness of a firm's ethical beliefs and the level of its top management team's conviction to them. In normal circumstances, it may be difficult to discern whether a top management team is engaging in moral pragmatism (in which values are simply a means to an economic end) or whether they hold these values centrally. However, a crisis may place enough strain on a firm that its most highly held values are exhibited. Crises have a way of activating moral beliefs in a manner that everyday events do not (Fritzche and Becker, 1983). We propose that observing organizational reaction to a crisis provides a lens through which to view an organization's ethical identity.

This paper contributes to both ethics and strategy literatures by suggesting a new framework for guiding organizations' approach to crises. We examine ethical and strategic responses to crisis beginning with the premise that the ethical process is stimulated by organizational pain or a need to reduce uncertainty, threat, or discomfort (Cyert and March, 1963; Nicholson, 1994). As part of this analysis, we identify elements of an organization's ability to identify and respond to ethical issues (Rest, 1986), including remaining sustainable and financially successful.

Acknowledging that crises come in many different forms, we create four broad categories to provide insight into their nature. We propose a two-by-two framework for characterizing a crisis as internal or external and as normal or abnormal. This approach enhances our understanding of crisis and sheds light on the nature of the strategic and ethical response required in different situations.

The paper joins streams of research on crisis management, business ethics, and strategy. We concur with Gilbert (2001) that ethics cannot be a mere moderating influence on the corporate strategic process. The paper draws upon the contributions of scholars and theorists (e.g., Hosmer, 1994), who have argued that strategic management must include an ethic that puts people at the heart of the strategy. We build upon this approach and describe it as ethical rationality.

Understanding the context that prevails is central to understanding ethical decision-making (Trevino, 1986). Therefore, we begin by separating crises into four categories, and suggesting the kinds of ethical decisions that might emerge under these circumstances.

Organizational crisis

Organizational crisis is a widely and often vaguely defined concept. Despite increasing scientific and managerial interest in the issue, there is still no generally accepted terminology for crises facing organizations. Many distinguished scholars have attempted to propose a unifying conceptualization of organizational crisis (e.g. Caywood and Stocker, 1993; Fink, 1986; Heath, 1998; Pearson and Clair, 1998; Weick, 1988) with rather mixed results. The definition of organizational crisis seems to continue to change, as do crisis management techniques.

We draw from the existing literature on organizational crisis in search of the most adequate foundation for our conceptualization of crisis and its management. Then we elaborate upon it to meet better the theoretical and practical requirements of the model we postulate.

Pearson and Clair (1998) suggested that organizational crisis can be best described as 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''. This definition suggests that crisis is a situation faced by an organization that has a potential of escalating and negatively impacting its ''credibility and reputation'' (Simola, 2003).

We define organizational crisis as an extraordinary condition that is disruptive and damaging to the existing operating state of an organization. An organizational crisis, if ignored or mismanaged, will threaten competitiveness and sustainability of the affected entity. Despite their differences, crises can impact both the firm and its stakeholders. A CEO killed in a car crash on his way to play golf or introduction of an illegal copycat product thousands of miles away can have comparably detrimental organizational consequences as a manufacturing plant explosion or employee strike. On the other hand, crises that are similar in type can vary with respect to magnitude and duration. An internal crisis, such as a corporate scandal, might result in bankruptcy, as in the case of Enron, or it might result in new management, as in the case of Tyco.

Crises can be overwhelmingly intense and relatively brief or somewhat gradual and persistent. They can be wide-spread, permeating an organization and beyond it, or self-contained. They often differ with respect to frequency and probability of reoccurrence. Given the multitude of crisis characteristics and defining details, every crisis can be viewed as a uniquely undesirable experience. Nevertheless, regardless of the specific attributes of a crisis, from the perspective of the firm, the most significant and unifying characteristic is its potentially critical consequence to that organization.

According to Pearson and Clair (1998), organizational crisis management is part of an overall organizational management approach, which includes a strong emphasis on averting crises and restoring or minimizing damages crises cause. We adopt this definition of crisis management as our starting point. An extension of this view seems appropriate since a well-managed crisis can ultimately benefit an organization. Examples of ''crisis management as a tool'' approach are numerous

(Seymour and Moore, 2000). A company that addresses a product failure in a just, swift, and generous manner may find itself in a position of strengthened customer loyalty, improved competitive standing, or greater recognition and respect.

The concept of crisis preparedness and its relationship to crisis response is also well developed in the existing literature (e.g. Mitroff et al., 1987, 1996; Pauchant et al., 1992; Pearson and Mitroff, 1993). We will revisit this research stream later, but now turn to a proposed crisis typology.

A 2×2 crisis typology

Effective and ethical crisis management requires a complete and practical classification of crises. Such categorization not only simplifies the actual crisis management process itself but also adds needed insight into the nature of organizational crisis. In their ''wheel of crises'', Mitroff and Alpaslan (2003) proposed a division of all accidents facing organizations into three main groups: normal, abnormal, and natural disasters. They further subdivided normal and abnormal groups into six more specific crisis classes. Building on their work, we advance a new typology of organizational crises to consider in an ethical context. Our crises classification groups all events affecting organizations in terms of the relationship of the crisis to the organization.

There are two dimensions to our crises typology. The first dimension is based on the organizational distance to the crisis' original *center of gravity* (internal/external). The second dimension refers to a *frequency* factor (normal/abnormal). This classification creates a concise 2×2 framework capable of typing any environmental, organizational, or personal crises (see Table I).

For parsimony's sake, each crisis scenario facing organizations should be assigned to only one specific organizational crisis category at any given time. This is important in order for the proposed typology to truly be practical and comprehensive. Although there should be little latitude in the classification of crises, we acknowledge the possibility of reclassifying crises from normal to abnormal if they become more frequent.

Ethical rationality

Ethical rationality refers to a rational and morally driven response to events. By amalgamating the concept of ethical rationality with conventional strategic orientation, this approach to decision-making becomes a sustainable and ethically attractive method for addressing crises and providing ethical outcomes for stakeholders. Scholars have criticized the prior moral management approach for lacking specificity and compatibility with the underlying nature of business enterprises. Ethical rationality advises involvement of both of these issues of practicality when dealing with all forms of organizational crisis.

In the strategic decision-making literature, a rational firm comprehensively scans the environment, analyzes the information and possible alternatives, and creates long-term plans (Miller, 1992; Priem et al., 1995). Studies have shown that firms facing dynamic, and therefore uncertain, environments and events fare better than their competitors when their decision process is rational and fast (Eisenhardt, 1989; Miller and Friesen, 1983; Priem et al., 1995).

Crisis situations, because of their uncertain and often immediate nature, require that firms take swift, yet informed action in order to survive. We argue, however, that these actions must also be ethical in nature and take into consideration the needs of and obligations to the organization's stakeholders. We develop a model of the ethically rational firm that is able to make fast, informed and ethical decisions in the face of a crisis situation. This model builds upon two streams of literature: rationality in strategic decision-making and ethics in strategy, in which we include the stakeholder view of the firm. In this section, we briefly review these literatures before presenting a model of the ethically rational firm's response to a crisis.

Strategic decision-making rationality

The literature on strategic decision-making identifies rationality as a firm's ability to make decisions based on comprehensive information and analysis. Among the key criteria researchers use in identifying the extent of rationality in a firm's decision process are

TABLE I
Typology of crisis

Internal-normal	Internal-abnormal
• Crisis originates within the organization • Crisis is relatively predictable with respect to timing and magnitude of consequences and the frequency is not uncommon • Crisis can be anticipated and prepared for • Crisis is organization-specific • One organization suffers Examples: 1. *Physical crises* (industrial accident, product failure/recall) 2. *Personnel crises* (strike, exodus of key employees, workplace violence, vandalism, sexual harassment) 3. Other (internal supply chain breakdown)	• Crisis originates within the organization • Crisis is rare and not predictable with respect to magnitude of consequences and/or timing • Crisis should be loosely expected and flexible resources allocation • Crisis is organization-specific Examples: 1. *Criminal crises* (executive kidnapping, hostage situation, corporate scandal) 2. *Information crises* (information theft, copyright infringement, records tampering,) 3. Other (product/brand boycott, firm-specific cyberattacks)
External-normal	**External-abnormal**
• Crisis originates outside the organization • Crisis is relatively predictable with respect to timing and magnitude of consequences and the frequency is not uncommon • Crisis should be loosely expected and flexible resources allocated • Crisis can affect multiple firms • All relevant organizations suffer Examples: 1. *Economic crises* (depression, hostile takeovers, currency markets collapse) 2. *Industry crises* (supplier failure, technology, obsolescence, industrial espionage, product category failures) 3. Other (industry-wide cyberattacks/viruses)	• All relevant organizations suffer • Crisis originates outside the organization • Crisis is relatively predictable with respect to timing and magnitude of consequences and the frequency is not uncommon • Crisis is virtually impractical and/or impossible to anticipate • Flexibility enables adequate response • Crisis must advance to clarify environment • No finalized response until crisis ceases Examples: 1. *Political crises* (terrorism, war, expropriation) 2. *Industry deregulation* (legal changes, privatization) 3. *Reputation crises* (malicious rumor, slander, logo tampering) 4. *Natural disasters* (earthquake, tsunami) 5. Other (major supplier bankruptcy)

the comprehensiveness of scanning the environment (Miller, 1992; Priem et al., 1995); the range of the analysis of the information (e.g. Eisenhardt, 1989; Goll and Rasheed, 1997; Priem et al., 1995), the simultaneous generation of a number of alternatives (Eisenhardt, 1989; Judge and Miller, 1991); and the degree of planning (Miller, 1992; Priem et al., 1995). Perhaps the most common analysis of the effectiveness of rationality is in the context of the level of environmental dynamism that the firm faces (Goll and Rasheed, 1997).

Our analysis examines not only the level of environmental dynamism that the firm faces but also the type of crisis. Organizations in dynamic environments face a higher degree of uncertainty than do firms in less dynamic situations. Firms in dynamic industries must react quickly to events whose timing or magnitude was unknown or whose existence was unforeseen. Researchers have found that companies that are rational in their strategic decision-making process fare better than their less rational competitors (Goll and Rasheed, 1997; Miller and Friesen, 1983; Priem et al., 1995). These firms, however, must act quickly, otherwise they will not react to the crisis situation in a timely fashion. Rational firms that performed well in uncertain environments accelerated their cognitive processes (Eisenhardt, 1989).

Strategy and ethics

Corporations tend to rely heavily on economic factors in an attempt to influence appropriate behavior by their top management teams. Some argue this approach is the most ethical as it efficiently allocates and uses resources (Friedman, 1965). This emphasis, which uses the market to determine what is appropriate behavior, is evident in the theory and practice of corporate governance, which is most often built on an agency theory view of the firm (e.g. Daily et al., 2003; Dalton et al., 1998; Shleifer and Vishny, 1997). In agency theory, both a firm's owners and the agents whom the owners hire to manage it are utility maximizers (Jensen and Meckling, 1976). Because managers cannot be trusted to act in the best interests of the principals, that is to maximize their wealth, the owners must put in place governance mechanisms. While some consider corporate governance in the U.S. as the best in the world for protecting shareholder interests (Shleifer and Vishny, 1997), it has been criticized for its focus on only on one set of stakeholders – the stockholders (e.g. Donaldson and Preston, 1995; Freeman et al., 2004; Hill and Jones, 1992).

An alternative to an agency theory view of the firm is the stakeholder approach. Rather than focus on the concerns of just the stockholder, stakeholder theory argues that the interests of all of the firm's stakeholders must be considered. A substantial number of scholars who argue for stakeholder theory believe that a critical part of the theory is its normative moral rationale for including the interests of all stakeholders (Donaldson and Preston, 1995; Jones and Wicks, 1999; Kaler, 2002). As Donaldson and Preston (1995) asserted, stakeholders have "intrinsic value" separate from their worth to the stockholders and that firms are just as compelled as individuals to make ethical decisions about those they affect.

For a firm to make ethical decisions, ethics must be central to the strategic planning process (Hosmer, 1994). As Gilbert (2001; 565) noted, strategic management textbooks often treat ethics "*as a modifying influence on the strategic management process*" (italics in the original). With such an approach, the strategic process is not altered, but is kept distinct from ethical norms that might conflict with market-driven behavior (Gilbert, 2001; 569). Hosmer (1994), however, suggested a model of strategy as applied ethics where ethics is at the heart of strategy. He defined normative ethics as dealing with the basic rules required "to ensure a 'good' society . . . in which people willingly cooperate for the benefit of all." This ideal, however, cannot be achieved, as moral decisions harm some people while benefiting others. Thus, Hosmer stated, applied ethics are needed to use "these basic rules . . . to gain insight and understanding."

An ethically rational firm's response to a crisis

A firm faced with a crisis situation often needs to react quickly. Without a strategic approach to crises that integrates both a rational and ethical approach, a firm will have difficulty assessing the harms and benefits of their decision using applied ethics. An ethically rational firm comprehensively scans the environment, analyzes information, and does so with a long-term planning perspective.

In scanning the environment, the ethically rational company must first know its stakeholders, as well as their values (Freeman et al., 1988). The firm will have identified most of these stakeholders prior to a crisis: shareholders, employees, suppliers, consumers, customers, communities, governmental agencies, etc. Other stakeholders, such as victims (Marcus and Goodman, 1991), might not be known until a crisis occurs. In the case of ASTRA USA, employee stakeholders emerged whom the firm had not only failed to acknowledge as stakeholders but whom, according to claims they brought in federal court, had been sexually discriminated against (Seymour and Moore, 2000). Stakeholders could also be members of the community whom the firm does not typically see as stakeholders, such as employees and residents in Bhopal, India, who suffered from Union Carbide explosion (Trotter et al., 1989). Having identified the stakeholders, a company must understand the claim on the firm each has (Kaler, 2002), both in general and as a result of the crisis. A firm scans the environment to understand how the crisis has affected the company and its stakeholders.

Additionally, a firm seeks to grasp such effects as injuries or fatalities, increased costs, reduced capacity or capability, damaged reputation, or environmental damage. Scanning information that cannot feasibly be collected ahead of time should be gathered in real time to aid the speed of the decision process (Eisenhardt, 1989). An organization can know prior to a crisis the general cost to rebuild a warehouse and can identify most of its stakeholders, yet it could not foresee some eventualities, such as the costs of cleaning a contaminated site or whether there would be victims as a result of the crisis.

After it scans a crisis environment, a firm must analyze the information it has collected. It identifies the ethical issues it faces including firm sustainability, and assesses the harms and benefits that have accrued to the stakeholders (e.g. Hosmer, 1994; Singer, 1994). The analysis must take into consideration not just the stakeholders as groups but also as individuals, because of the disproportionate level of harm that might have befallen one or many people (e.g., fatalities). However, understanding stakeholders remains a central part of the ethical decision-making process.

Proposition 1

> *Decision-makers who understand the needs of a wide range **of stakeholders** as part of their strategic decision-making will make more ethical decisions during a time of crisis.*

To be ethical and rational, a firm must engage in "plural forms of rationality and ethical reasoning" (Singer and Singer, 1997), by balancing economic analysis, legal analysis, and "philosophic analysis, based on rational thought processes" (Hosmer, 1996). Among the five ethical lenses that Hosmer (1996) identified to conduct a philosophic analysis were: eternal law, utilitarian theory, universalist theory, distributive justice, and personal liberty. He argued that managers need to have at their disposal all five ethical lenses, as the use of only one will not be enough to guide decisions in all circumstances (Hosmer, 1996). Various ethical approaches are meant to compliment each other and allow top management to ask difficult questions from a variety of perspectives. However, how decision-makers ultimately make decisions will always be informed by their own moral beliefs and the firm's values. The ability of decision-makers to make an ethical decision at a time of crisis will depend upon the extent to which ethics is integrated into operations (Fritzsche, 2005), or the extent to which decision-makers incorporate ethics on a routine basis. This leads to our second proposition.

Proposition 2

> *Decision-makers who **regularly use ethical lenses** as part of their strategic decision-making will make more ethical decisions during a time of crisis.*

In analyzing a situation, a firm will look at mathematical equations and numerical results, such as ROA or capacity, which readily lend themselves to a utility maximization framework. However, there are other factors that an organization must take into consideration when developing an ethically rational crisis response, factors that do not easily translate to mathematical formulas (Singer and Singer, 1997). An extreme example is a fatality. While costs such as lost productivity, lawsuits, and insurance benefits are routinely applied to deaths, such a tragedy must be evaluated using an eternal law perspective, as life has value itself and is not an object of barter. Additionally, equations and their underlying theory can be used as excuses to rationalize immoral decisions (Singer and Singer, 1997). When Ford reacted to a design flaw in the Pinto that could cause the car to explode, it resorted to a cost-benefit analysis to address the crisis. The firm estimated that there would be approximately 180 deaths, each of which they valued at $200,000, and chose not to recall the vehicle. This decision led to the deaths or severe burning of hundreds of people (Ashforth and Anand, 2003). In contrast, when top management at Johnson and Johnson discovered that Tylenol capsules had been poisoned in the Chicago area in 1982, they did not weigh the potential loss of additional life against the immense costs of removing $100 million of capsules from store shelves (Allinson, 1993). Because some ethical dilemmas an organization faces are not easily converted into an equation, the ethically rational firm seeks an optimal or best solution to a crisis rather than one that results from a cost-benefit calculation (Singer and Singer, 1997).

Ethical issues, especially ones with significant consequences, require reflective inquiry (Singer and Singer, 1997). Reflection, however, implies time consumption, which is seldom possible in responding to a crisis situation. Reflective inquiry requires conversation about the ethics of a decision. Instead of merely relying on cost-benefit analysis, the process of generating multiple alternatives is critical to a reflective inquiry (Singer and Singer, 1997). Eisenhardt (1989) proposed that creating multiple alternatives allows the top management team to better understand the strengths and weakness of any plan in comparison to others. We add that it also allows top management to understand better the harms and benefits relative to other possible solutions. Eisenhardt (1989) argued in her study that the simultaneous generation of alternatives also limited escalation of commitment to a particular perspective and supplied a fallback choice in case the initial decision failed to produce desired results. By having decision makers consider alternatives, a firm can limit premature commitments to set beliefs and associated rationalizations (Fiske and Taylor, 1991). The generation of simultaneous alternatives speeds up the decision process (Eisenhardt, 1989; Judge and Miller, 1991), while limiting divisiveness. Thus,

Proposition 3

Generation of ***multiple simultaneous alternatives*** *will generate a more ethical solution to crisis than will sequential alternatives or no alternatives.*

By incorporating a planning process into its response to a crisis, a firm is engaging in a long-term view, in which the sustainability of a firm takes precedence over the short-term maximization of profits. This perspective is ethical in that it does not disproportionately advantage one stakeholder group, stockholders, over other groups. Here employees' wages and benefits, supplier's sales, customer's needs and benefits to the community, as well as the return to stockholders, are all considered.

This kind of ethical rationality requires the investment of significant resources. The ethically rational approach does not replace the moral consciousness of a top management or the values of a firm. The approach should lead, however, to better ethical decisions by providing a framework for making informed decisions. Additionally, it should improve a firm's ethical climate if the approach is standard practice for top management, regardless of whether the firm is in crisis or not (Fritzsche, 2005). Just as a top athlete can perform after having practiced and trained, the rational ethical decision-maker needs to have integrated ethical learning and sensitivity into the firm's regular practices. Thus,

Proposition 4

A strategic decision-making approach to crisis that is ***practiced routinely*** *will provide a more optimal solution than one invoked only at the time a crisis occurs.*

Typology

The value of the proposed crisis typology to the ethically rational approach is not its reclassification of organizational crises *per se*, regardless of its practical simplicity and informative capability. Rather it indicates an opportunity for an organization to predict, and thus to anticipate, a certain type of crisis. Consequently, the real advantage of the two-dimensional crisis typology, as it relates to a focal organization, is threefold.

First, the typology provides a convenient, uncomplicated, and reasonably comprehensive framework for distilling relevant characteristics of a crisis from other crisis attributes, which may not be pertinent for addressing a crisis. Second, it suggests the degree of predictability of organizational crisis. Because this typology provides more predictability, it allows organizations to develop a more ethically rational approach to crisis. Third, the typology explicitly emphasizes the significance of fit or congruence between a crisis specification and the most effective crisis response.

An ethically rational crisis management method requires that available and relevant information regarding the recent, current, and expected strategic environment is swiftly incorporated into the strategic decision-making for the benefit of all stakeholders. Thus, this new typology of organizational crises enables an ethically rational organization to function more smoothly, enhancing the understanding of the crisis and its context.

The organizational crisis typology addresses variation in the level of predictability of the four forms of organizational crisis. An organizational crisis that is more central in its origin to an organization (internal) will be more predictable than a peripheral or external crisis with respect to both the timing and magnitude of its consequences, since the crisis event remains contained within the organization.

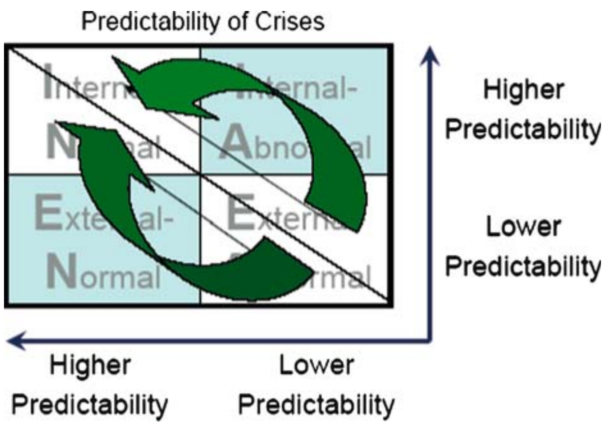

Figure 1. Predictability of crises

An organizational crisis that is more frequent, (normal), will be relatively more predictable than a less frequent (abnormal) crisis with respect to both the timing and magnitude of its consequences. An organizational crisis that is less frequent and thus harder to predict (abnormal) will be relatively rare and thus unpredictable with respect to both the timing and magnitude of its consequences. Figure 1 depicts the relationship between the predictability and the externality and abnormality of crises.

Ethical rationality and crisis type

Ethical rationality makes an assumption that organizations use ethics and concern for the welfare of people, when making judgments and strategic decisions. Ethical rationality does not moderate the effects of strategy, but rather is a strategic approach. Empirical studies commonly use financial performance to determine whether or not a strategic outcome was successful. If ethical rationality is applied, then the outcome is a combination of financial and non-financial variables, including less-tangible items such as stakeholders' welfare.

Ethical rationality applies to each quadrant of the 2×2 crisis matrix so that a different type of organizational response or preparation is appropriate to each crisis type. We provide examples of how this occurs.

Internal-normal crisis

Internal-normal crises are the most predictable type with respect to timing and magnitude and occur more frequently. The effects of these crises are limited to the organization and its stakeholders. Since these crises are to some degree expected, the response is within the realm of a company's control. Therefore, the ethically rational response, for the most part, can occur prior to the crisis event. This pre-planning works well, because in a normal crisis, the response can be quick and rational, most likely requiring little additional decision-making effort at the time of the event. Many corporations plan for normal crises with documents outlining crisis response details. In event of a crisis, there is a clear, trained response that requires only minimal decision-making effort. Without these developed and practiced procedures, the organization's leaders can only rely on their own abilities to understand and react to the situation in an ethical and timely fashion.

The internal-normal crisis often involves a product design or safety failure, or problems with employees. Examples include the Exxon Valdez oil spill of 1989, which resulted in the spill of 10 million gallons of oil on the Alaskan coastline (Barton, 2001), and the Challenger Shuttle disaster of 1986, which resulted from NASA leadership's desire to go ahead with the January 28th launch date despite incomplete information from the engineers on how the O-rings on the shuttle would perform at low temperatures. While the results of these crises vary in magnitude and impact, both the extent of damage wrought by the oil spill and the tragic loss of life that resulted from the Shuttle disaster were within the realm of possible prediction given the nature of the projects.

Because internal-normal crises emerge from within an organization and have a relatively high degree of predictability, organizations are able to develop protocols for addressing normal crises that emerge from within. Claims of sexual harassment, such as those brought by women employees against management at ASTRA USA in 1996 provide an example of an internal/normal crisis. The concerns and the subsequent litigation arose within the organization and were somewhat foreseeable. Six former employees of this American arm of the Swedish pharmaceutical company filed charges for sexual harassment. The women alleged in their lawsuit that Lars Bildman had fired older married women and replaced them with "extremely attractive" younger women whom executives then pressured to have sex (Business Week, May 13 1996). Initially, Bildman denied the charges. Executives in the ASTRA AB headquarters in Sweden responded by firing Bildman and other top executives, launching an internal investigation, and implementing a hotline for employees to call investigation officers anonymously. By communicating with employees in a timely fashion, the executives in the ASTRA AB headquarters demonstrated an awareness of their stakeholders and their values. Like other internal-normal crises in which the crisis is generally foreseeable, the ASTRA sexual discrimination suit illustrates that many ethical and rational decisions can be made beforehand and placed in a crisis plan that is executed at the time of crisis. Therefore,

Proposition 5

The ethically rational organization is able to anticipate an Internal-Normal crisis and can employ, prior to the crisis, a substantial amount of scanning and analysis relative to the amount needed for a decision. Once the crisis hits, there remains a minimal amount of scanning and analysis for decision making.

External-normal crisis

An example of external-normal crisis is the impact of the economic downturn on museums. The economic downturn may be considered a crisis because it threatened the sustainability of the organizations, may be considered external because the downturn arose outside of the organizations, the museums, and may be considered normal, because the downturn was generally predictable. An example of an optimal response can be seen in organizations that decided to include less scientifically legitimate areas such as an IMAX theater or amusement park to fund traditionally scientific and educational segments. An example is outlined in Oakes et al. (1998) who discussed the business planning of a museum to include other more business-like ventures. In addition, organizations such as Hubbs-Seaworld Research Institute partners with SeaWorld Amusement parks (Hubbs Sea World, 2005) in order to provide information and education to the general public and funding for researchers. By shifting the focus from a non-profit to a profit center, organizations struggle with complex moral issues. While education should be free, it seems that research and the ability to continue to reach out to other areas and maintain serious scientific pursuits is costly. Therefore the museums reached a balance between profit and service. Following the approach of ethical rationality, the museums were able to anticipate the decreased donations that would accompany an economic downturn. They were able to continue with educational missions that benefit the community, one of their primary stakeholders, and ensure their survival by incorporating popular items that attract guests and money into their not-for-profit organizations.

Proposition 6

The ethically rational organization is able to anticipate an External-Normal crisis and can employ, prior to the crisis, a limited amount of scanning and analysis relative to the amount needed for a decision. Because the crisis emerges outside of the organization, the degree of predictability is reduced.

Internal-abnormal crisis

Internal-abnormal crises originate inside an organization, are rare and unpredictable with respect to magnitude and consequences, but still remain organization-specific. In these crises an organization would not be able to pre-plan a response since the event and its effects are not foreseeable. However, since the crisis is internal, the timing of crisis response is dependent on the urgency of the crisis, or on a combination of attributes of the organization and the environment in which the organization exists.

An example of an internal-abnormal crisis is the unexpected passing away of a CEO. The timing of response would differ depending on the type of organization and the environment. In a highly dynamic environment, the organization might require the CEO's urgent replacement. In stable organizational environments, there is less need to replace a CEO immediately because their organization can manage with others who can fill in for the short term. Because internal-abnormal crises are less predictable, it is difficult for the organization to plan its response to the crisis ahead of time. Response timing—whether quick or slow and considered – in part depends upon environmental factors such as dynamism and munificence.

Another example of an internal-abnormal crisis is the corporate scandal at Enron. Beginning with unethical and illegal practices involving either the top management, or at the very least, their sanction, unethical internal practices ended in the unexpected bankruptcy and the ultimate demise of one of the largest corporations in America (Probst and Raisch, 2005). Enron executives engaged in inadequate reporting, inadequate gate keeping, and acceptance at the board of directors-level of conflicts of interest. Specifically, Enron failed to properly account for and disclose investments in its Special Purpose Entities. It incorrectly recognized revenue that increased its net income. The company made restatements of merchant investments based on unbelievable information to overstate assets. It used incorrect accounting for its own stock and it did not adequately disclose of and account for related party transactions, conflicts of interest and costs to shareholders (Benston et al., 2003).

Both in allowing the crisis of internal corporate malfeasance to develop, and in its decisions after the crisis emerged, Enron's top leadership failed to demonstrate ethical rationality. By conducting illegal deals that would benefit themselves, they failed to treat the company's stakeholders – including employees and investors – fairly. The fact that the Enron scandal developed into the bankruptcy and downfall not only of itself but also its accountants, Arthur Andersen, indicates the difficulty of spotting and responding to a crisis that uncoils, slowly and python-like, from within the organization in a volatile environment (Probst and Raisch, 2005).

Proposition 7

The ethically rational organization is able to identify some antecedents of an Internal-Abnormal crisis as it develops within the organization, but can employ, prior to the crisis, only a minimal amount of scanning and analysis relative to that needed for a decision.

External-abnormal crisis

In the external-abnormal crisis situation, a crisis originates outside an organization, and is unpredictable regarding timing and magnitude of consequences. These crises are idiosyncratic and almost impossible to anticipate. In this quadrant, multiple organizations suffer. There are many examples, such as savings and loan deregulation or the introduction of a word processing to replace typewriters.

In these cases, important changes in the environment shift the equilibrium between organizations. When the environment changes, an organization's strategy must also change. In some cases in which the crisis unfolds slowly, such as the introduction of a new product replacing old technologies, first-mover advantages occur. However if the equilibrium shifts and the crisis 'comes out of nowhere,' then there are advantages to changing the organizational strategy quickly and using an ethically rational model to reach a more optimal position.

Johnson and Johnson's handling of poisoned Tylenol capsules in 1982 is a good example of a company that had to act fast to address a crisis that 'came out of nowhere' (Barton, 2001). In the fall of 1982, seven people in the Chicago area died after taking extra-strength Tylenol capsules that had been poisoned with cyanide. Despite the fact that company had no way of anticipating an external-abnormal crisis such as the poisoning of its capsules, Johnson and Johnson reacted swiftly with the recall from store shelves and destruction of all 22 million capsules valuing $100 million (Barton 2001). The company's response has been hailed as exemplary for several reasons. First, the company responded swiftly to a situation it could not foresee. Second, the company showed that it was willing to put the safety of consumers before any discussion of liability. It took responsibility via advertisements in newspapers and widespread television communication, and set up toll-free hotlines for consumers to call, disseminating over 450,000 electronic mail messages (Seymour and Moore, 2000). What made this decisive response possible on Johnson and Johnson's part was that it had fully integrated a credo that managers were expected to incorporate ethical considerations into all aspects of their personal decision-making. According to Thomas Dunfee (1987), the general credo employed by Johnson and Johnson is widely thought to have been a major factor in its decision to pull Tylenol off the market when cyanide was discovered in some capsules.

Proposition 8

The ethically rational organization is not able to identify the External-Abnormal crisis and is not able to employ much scanning and analysis relative to the amount needed for a decision prior to the crisis.

Conclusion: Towards and ethical rationality framework

Perhaps the wisdom about judging a person by the way that he or she reacts under pressure is also true of organizations. It is possible to judge an organization's ethical integrity by the way it responds to a crisis. In order to enhance our understanding of ethical decision-making, we begin by looking at the context. To that end, we propose a 2×2 matrix that divides crises into four different types. Through examining organizational responses to each type of crisis, we hope to learn not only about those organizations' ethical identity, but also about the kinds of response that prove successful from an ethical perspective.

To that end, we present a new concept of ethical rationality, combining crisis, rationality, and ethics and strategy literatures for an ethical decision-making framework in response to crisis. We propose that by using a model of ethical rationality, the response to crisis can be rational, quick, and of high ethical quality. We also propose that the fit between the type of crisis and the response to crisis increases crisis response quality. Ultimately, to create the optimal crisis response, it is necessary to examine crisis based on ethicality and rationality.

A suggested research agenda would incorporate this framework and include research on crisis, rationality, and the impact of ethics and ethical decision-making by leaders. The 2×2 matrix proposed here is only a preliminary tool that suggests how and why organizations should prepare for different types of crisis. By planning a response and knowing the type of response, practitioners could be able to apply an ethically rational model and improve organizational outcomes.

Although rationality has been studied thoroughly (see, e.g., Eisenhardt, 1989; Goll and Rasheed, 1997; Priem et al., 1995), it has not been looked at through ethical lenses, nor has it been applied to the crisis literature. The ethically rational model of crisis response could extend previous research, which primarily examined performance metrics. We advocate empirical studies to verify the suggested significant and positive relationship between ethical rationality and ethical performance, as well as the effect on the relationship of modifiers like environmental dynamism or munificence.

In our model, placing ethics at the center of strategy requires a more rational approach, regardless of the environment. Ethical rationality takes morality and the needs of a broader stakeholder group into consideration. We welcome additional efforts to link strategic decision-making with the ethics literature, and believe such efforts will be useful in helping organizations deal with crisis situations.

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