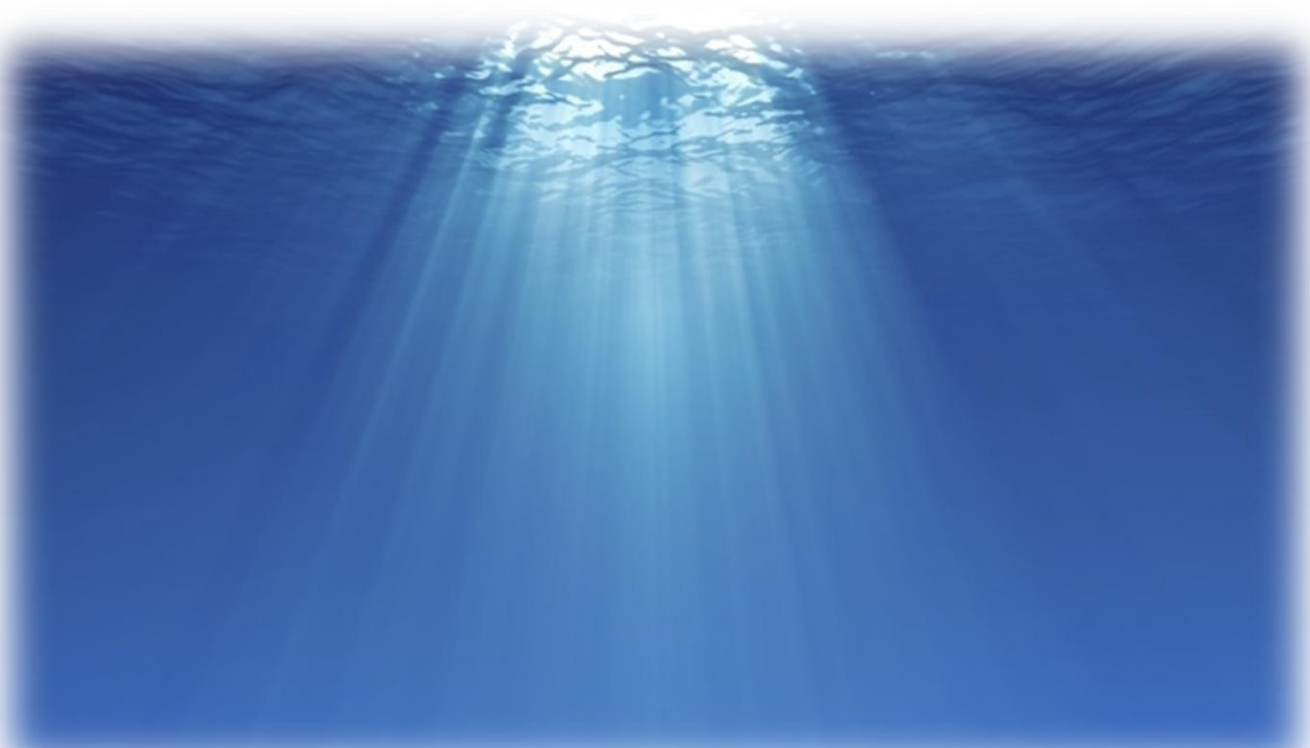


COPENHAGEN BUSINESS SCHOOL 2012
STRATEGY, ORGANIZATION AND LEADERSHIP
MASTER THESIS



Sensemaking under Extreme Circumstances:

A Single Case Study

ANDRI ÚLRIKSSON

DATE OF SUBMISSION: OCTOBER 26TH, 2012

NUMBER OF PAGES: 62

STU's: 126.346

SUPERVISOR:
IB ANDERSEN



Declaration of Authorship

(To be placed at page 2 in the assignment)

Identification
Title of assignment: Sensemaking under Extreme Circumstances: A Single Case Study
Study programme: Strategy, Organization and Leadership
Course: Master Thesis
Type of Exam (e.g. Home assignment or Bachelor Project): Master Thesis

Date of birth:	Name of author(s):	Group no. (if relevant)
13.01.1977	Andri Úlriksson	

Number of pages:
According to the exam regulations for this particular exam, the assignment must be of a maximum of 126,346 pages [Insert max. number of pages] exclusive front page, bibliography and appendices. Appendices are not included in the assessment.
Each individual page of the assignment may not comprise more than 2,275 characters (incl. spaces) on average. (E.g. similar to 35 lines of 65 characters). All pages must have a margin of min. 3 cm in top and bottom and min. 2 cm to each of the sides. The font must be of a minimum of 11 pitch. Tables, diagrams, illustrations etc. are not included in the number of characters, but will not justify exceeding the maximum number of pages.

Code of conduct:	
Undersigned author hereby declare: <ul style="list-style-type: none">- that I/we individually or together with the group members listed above have written and completed this assignment.- that I/we have indicated all quotes with quotation-marks and provided references to their sources.- that the assignment complies with all regulations stated above regarding size and form.	
Date: 26.10.2012	Signature(s): Andri Úlriksson

Executive Summary

In October 2008 the financial sector in Iceland collapsed almost overnight. The Prime Minister at the time, Geir H. Haarde led the government through the most difficult financial era in later times in Iceland. Every decision Mr. Haarde took would affect the whole nation tremendously; the speed of economic recovery, the depth of the crises and the nation's international relations were only a few factors his decisions would affect. Leadership under these conditions can be said to be under extreme circumstances.

Sensemaking is a process of rationalizing the given context, questioning and reflecting on a given situation in an attempt to reduce confusion. This paper attempts to use the sensemaking framework to study the decisions made by Mr. Haarde under these aforementioned circumstances. It gives a theoretical overview of the concept of sensemaking and analyzes the factors that describe the essence of the framework.

In the academic literature identifying the core attributes of leadership on the one hand and management on the other has been very controversial. The paper emphasizes on crises management which can be said to be somewhat intertwined between these two concepts. It attempts to link leadership and crises management to the sensemaking framework. This is done with the help of a single case study of the leadership of Mr. Haarde, particularly under the extreme circumstances of the recent financial crises in Iceland.

Acknowledgements

First I want to thank my advisor Ib Andersen. I appreciate all his contributions of time and ideas.

Further, I want to thank Mr. Geir H. Haarde for granting me the time for an interview. He provided me with background knowledge, a deeper understanding of and new perspectives on the subject of leadership under the conditions he faced in October 2008. I feel honored that he agreed to meet with me and discuss these difficult times in our nation's history, not to mention in his own personal life.

Brynhildur S. Björnsdóttir and Björn E. Flóki Björnsson gave me good comments and tips during the writing of the thesis which I appreciate very much.

My wife deserves special thanks for tolerating my absence; especially the last weeks of my writings and for her tireless encouragement with my thesis. This achievement would never have been accomplished without her support.

Lastly, I want to thank my four children Agnes, Ármann, Kjartan Úlrik, and Anna for their support during the final stages. You guys are the best!

Table of Contents

Executive Summary	3
Acknowledgements	4
1. Introduction	8
1.1 The Research Model and the Thesis Outline.....	8
1.2 Background	9
1.3 Geir H. Haarde	10
1.4 Problem Definition	11
1.5 The Purpose of the Study and the Research Question	12
1.6 Methodological Focus in the Study	14
1.7 Scope and Limitations	14
1.8 Biases	15
2. Methodology.....	16
2.1 Research Design and Process.....	16
2.2 Type of Research and the Research Strategy	16
2.2.1 Case Study as a Research Strategy.....	17
2.3 Data Collection.....	18
2.3.1 Primary Data	19
2.3.2 Secondary Data	20
2.3.3 The Special Investigation Commission (SIC) Report	20
3. Theoretical Framework	24
3.1 Sensemaking.....	24
3.1.1 Identity.....	25
3.1.2 Retrospective.....	27
3.1.3 Enactive of Sensible Environments.....	28
3.1.4 Social	30
3.1.5 Ongoing.....	30
3.1.6 Focused on and by Extracted Cues.....	31
3.1.7 Driven by Plausibility rather than Accuracy	32
3.2 Leadership	33
3.2.1 Studies on Prime Minister Leadership Styles	34

3.2.2	<i>Interest and Experience</i>	35
3.2.3	<i>Motivation for Leading</i>	35
3.2.3	<i>Conflict Management Strategy</i>	35
3.2.4	<i>Information Management Strategy</i>	35
3.2.5	<i>Party Management Strategy</i>	36
3.3	Crisis Management	36
3.4	Leadership and Crisis	38
3.4.1	<i>Characteristics of the Leader</i>	38
3.4.2	<i>Organizational Characteristics</i>	39
3.4.3	<i>Everyday Leadership</i>	39
3.4.4	<i>Leadership under Severe Stress</i>	40
3.5	Leadership under Pressure	42
3.6	Crisis Reaction	44
4.	Analysis and Discussion	45
4.1	Early Signals	46
4.2	Haarde's Experience	47
4.3	Identity Constructions and Leadership	48
4.4	Retrospect	49
4.5	Environment	50
4.6	Ongoing-Social	51
4.7	Cues	52
4.8	Plausibility	52
4.9	Leadership	53
5.	Conclusion and Further Perspectives	56
6.	Bibliography	57
	Appendices	62
	<i>Appendix I: A CD Recording of the Interviews with Mr. Haarde</i>	<i>62</i>

List of Figures

Figure 1: Structure of the Thesis: Author's Own Creation.....	8
Figure 2: The Organizational Identity Dynamics Model. (Hatch & Schultz, 2008)	26
Figure 3: Prime Ministers Leadership Style, (Kaarbo, 2001, p.86).....	34
Figure 4: (Shrivastava, Mitroff, & Udwadia, 1987, p. 284)	37
Figure 5: Leadership under Severere Stress.....	38
Figure 6: Republic of Iceland Credit Ratings 2005, (Central Bank of Iceland, The Economy of Iceland, 2005).....	47
Figure 7: Republic of Iceland Credit Ratings 2006, (Central Bank of Iceland, The Economy of Iceland, 2006).....	47

1. Introduction

In this first chapter I will give an overview of the thesis and provide a fairly thorough background of my case. I introduce and discuss the background of Mr. Geir H. Haarde, the former Prime Minister of Iceland. I then define the problem the paper takes its point of departure from. Subsequently I reflect on the purpose and aim of the research and propose an explanation of how the research question was constructed. A brief overview of the methodological focus of the study, scope and limitations follows. At last I acknowledge possible biases I might have that could affect the contents of the paper.

1.1 The Research Model and the Thesis Outline

In order to build up a logical answer to the research question I have structured the thesis in the following way. In chapter one the scene is set by introducing the case. There is a brief

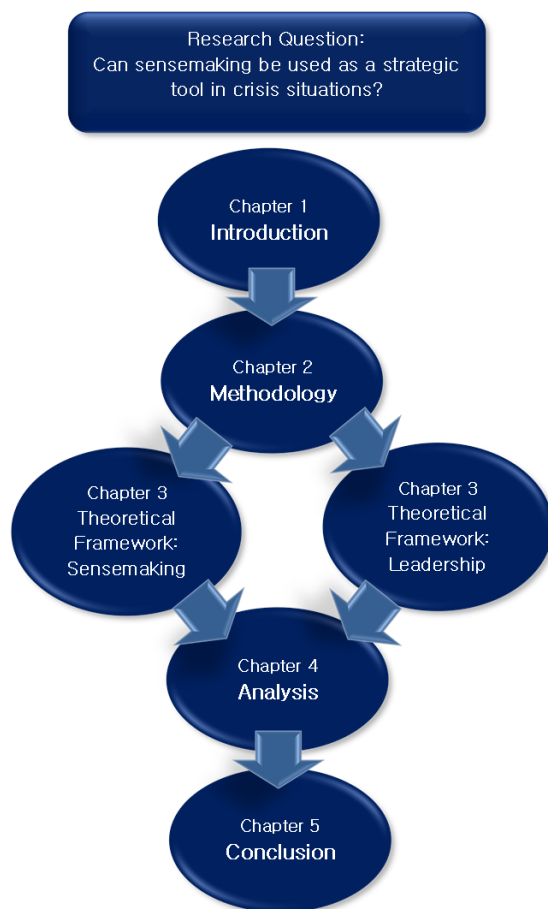


Figure 1: Structure of the Thesis: Author's Own Creation

overview of Mr. Haarde's background as well as an elaboration of the state of the Icelandic economy leading up to the crisis. This then leads to the problem definition and the purpose of the study. Chapter two is devoted to the methodology, where the research design and data collection are clarified. In the third chapter the theoretical framework is outlined, in which the main focus is on sensemaking and the crisis leadership model. In this chapter there is also a wide discussion on what has been written and said about crisis leadership and sensemaking by other scholars, as well as other relevant material that has been published on these matters. This material ranges from business news articles to empirical research that has been written

about the subject. The analysis chapter is where the data and theories are fitted together in order to answer the research question. The last chapter summarizes the thesis with a conclusion and further discussion. It is my intention to make the material clear and coherent, bearing in mind the following quote: “If you can’t explain it simply, you don’t understand it well enough” (Albert Einstein).

1.2 Background

First I will conduct a short analysis on the political landscape in Iceland. This is relevant because it illustrates the trajectory of Mr. Haarde as a politician and later as a leader for his political party, the Independence Party and eventually as the Prime minister of Iceland.

Iceland has been known for its peaceful approach to foreign politics ever since the country formally declared full independence from Denmark in 1944. Since then, Iceland has asserted neutrality in foreign politics. Historically, the political debates have evolved around Iceland’s most valuable assets; the fish in the sea around the island, the renewable energy sources, and the country’s agricultural sector. As the world economy evolved, so did Icelandic politics. On the first of January 1994, Iceland became a member of the European Economic Area (EEA) which gives the country access to Europe’s internal markets but also obliges the country to adopt all European Union legislation (except for laws on fisheries and agriculture). Subsequently, in the late nineties, the state owned banks were privatized and the country entered a new financial era. Iceland became part of the international banking community. The transformation was evident. Iceland was benefiting from the now more open economy and was considered a stable and strong economy¹.

All this led to an economic upturn. The general public was satisfied with how the economy was run and the political atmosphere in the late nineties until October 2008 was calm and composed.

Then in October 2008 the Icelandic financial system came to a halt in a single week. The three most dominant banks in Iceland could not refinance their operations and were taken over, one by one, by the Icelandic Financial Authority. This action was both momentous and

¹ The Icelandic banks were highly rated by the international rating agencies.

dramatic for the nation as a whole and had enormous effects on the political landscape in Iceland. The aftermath of these events led to changes of government. Former Prime Minister Mr. Geir Haarde and his party were replaced by the Left-Green party while the Social Democratic Alliance prevailed through the turbulence and stayed in office.

Still Mr. Haarde led the nation through this crisis at least for four months and was the key player in enforcing new legislation, called *The Emergency Act*. This act gave the government greater authority over the financial sector and the possibility of giving financial aid to the country's remaining financial institutions. Also under his command an independent committee was established to investigate the reasons why the financial system collapsed in October 2008.

In 2009 Alþingi, the Icelandic parliament, charged Mr. Haarde with several counts of misconduct while in office – for alleged action or inaction which supposedly negatively affected the economy. Mr. Haarde was charged with six counts of misconduct in total. After the proceedings he was convicted on only one count - for having failed to hold a sufficient number of cabinet meetings that focused on the problems leading up to the crisis. It is an interesting fact that Mr. Haarde remains the only member of Alþingi that has been held accountable for government action leading to the collapse.

1.3 Geir H. Haarde

Geir H. Haarde received his Bachelor's degree in economics at Brandeis University and Master's degrees in international relations from the School of Advanced International Studies of The Johns Hopkins University and in economics from the University of Minnesota. Geir worked as an economist at the Central Bank of Iceland from 1977 to 1983 and as an adviser to the Icelandic Minister of Finance from 1983 to 1987. In 1987 he was elected a member of parliament where he remained until 2009. Mr. Haarde was the Chairman of the Independence Party Parliamentary Group and member of the Parliament's Foreign Affairs Committee from 1991 to 1998 (Chairman for the committee from 1995 to 1998). In October 2005 Mr. Haarde was elected the Chairman of the Independence Party. He resigned in May 2009 (Althingi.is, 2009).

In April 1998 Geir H. Haarde became the Minister of Finance and stayed in office until September 2005 when he became the Minister for Foreign Affairs. In June 2006 he became the Prime Minister and held that position until he resigned in January 2009.

Mr. Haarde's career has been successful over the years he has been in the spotlight of Icelandic politics. His appearance is calm and composed, yet straight forward and casual. All characteristics one could expect from a leader. His career came to a halt after the financial crisis in Iceland. As one could expect, the public asked for his resignation and he responded by stepping down in January 2009 and calling for elections.

1.4 Problem Definition

Leadership is a well-studied field and stands alone as a discipline within Organizational Theory. There are many ways to categorize leaders and leadership styles. This has caused confusion and chaos in this field of study. Schein (2010) describes this field of study as confusing because "there is no clear consensus on defining who is a leader..." (p. 10 in the Preface).

In spite of this field being heavily researched, there is a blind spot that is yet to be discovered properly. That is, whether or not a leader makes decisions based on the character he is, or if he is task oriented, that is, if the external forces he encounters have some effect. And then, what if these external forces are exaggerated? This blind spot, in my opinion, is how leaders' behavior changes under extreme circumstances.

When crisis hit, the workload, and therefore the pressure, on everyone involved naturally increases. However, describing what happens exactly is a bit foggy. It is evident that the people trying to sort out what to do, which action to take, are trying to find the best solutions to the problem in as short time as possible. How they do this remains a question I'm interested in answering. There is one obvious answer to the question; they simply put their mind to it and do it. My interest goes a bit further than this. What motivates my study are the underlying factors; the psychological explanation to the problem-solving skills that distinguishes the leader from the crowd.

My focus is primarily on what position the leader finds himself in. One can speculate that the work overload on a leader working under extreme pressure is overwhelming. My focus is on the circumstances and the environment the leader has to face in a crisis situation to formulate a reasonable solution. This is particularly interesting to investigate due to the inconsistency with which people cope with stressful situations. In particular, leadership is by definition a stressful task, as I will expand on later. Therefore, when leaders find themselves in a situation in which their organization is dependent on their action, it is interesting to investigate how they deal with the situation. I'm also interested in the leader's state of mind, how he rationalizes the decisions he makes and how he sees the environment evolve during the crisis.

The problem is how to explain what goes on in the mind of a leader who faces a large scale crisis. There are difficult questions that need to be answered in order to understand how leadership affects the unraveling of a crisis and how leaders go about finding solutions. Speculations on how and what leaders communicate to the world can actually have an impact on others. People listen when Warren Buffet expresses his concerns about the market and when Barack Obama voices concerns about a war going on in Afghanistan or Iraq. It is this power that is the driving force of this research, because it seems that when something out of the ordinary happens, people tend to listen to leaders.

This leads to the problem definition. Leadership is by no means an easy task, and especially in crisis situations. It seems that when situations get out of control and the surroundings grow hostile, people tend to seek leadership to free them from the opposing threat. This is of course a hypothesis, even a weak one but still one piece of the puzzle and leads to the purpose of the study.

1.5 The Purpose of the Study and the Research Question

In recent years the world has witnessed a series of financial crises. As these crises unfold, people tend to seek explanations and ask the obvious question; "whose fault was this?", The answer is not that obvious. In Iceland the former Prime Minister, Geir H. Haarde was brought to a special court and ordered to answer for the financial crisis. He became the first leader in the world that had to answer for the financial crisis as his leadership was questioned. This is

particularly interesting for several reasons. First, Hemphill & Coons (1957) defined leadership as “the behavior of an individual when he is directing the activities of a group toward a shared goal” (p.7). In the criminal case against Mr. Haarde, his leadership was questioned and whether he failed to oblige his duties as Prime Minister. Assuming that the complexity of leadership in crisis situations is pushed to the limits, it is interesting to explore the concept of leadership under these conditions. Second, it is an interesting argument that one man can be held accountable for a financial crisis. Considering the ambiguity and assuming that there is more than one factor that triggers crisis on this scale, investigating studies that have been conducted on crises and leadership will hopefully shed some light on the matter.

One scholar, Karl E. Weick, has provided a framework that I believe can be used to answer these questions. In his book, *Sensemaking in Organizations* (1995) he explains the term “sensemaking” as a process (p.17) and through his work he shows how it can be used to seek out the truth behind “the story” (Weick, 2005, p.132).

One of the purposes of this study is to show how leadership is affected by sensemaking as described by Weick (1995). This is a complex issue that requires a deeper understanding of the process of sensemaking as well as a clear apprehension of leadership. In the theoretical chapters of the paper I will reflect on the different aspects of these issues. In my analysis I will then demonstrate if and then how sensemaking can be used as a strategic tool in crisis situations. This could then be helpful to explain the ambiguity and complexity that leaders face in crisis situations.

The research is mainly based on interviews with the former Icelandic Prime Minister of Iceland, Geir H. Haarde. The aim of the research is to extend the current knowledge of crisis management and to provide further perspectives for future research.

These assumptions have led me to my research question: Can sensemaking be used by leaders as a strategic tool in crisis situations?

1.6 Methodological Focus in the Study

The methodological basis for the thesis is a qualitative exploratory case study. This method is well suited for the research problem in order to get as much information as possible in a limited amount of time. Unstructured or semi-structured interviews are considered the best choice. The focus of qualitative research is to learn about the social world at first hand (G.Burgess, 1984). This fits my objectives whereas the concept of sensemaking is a social process (Weick, 1995). Interviews are flexible and allow the researcher to fully understand the perspectives (Daymon & Holloway, 2002) which can often result in an interesting conversation between the interviewer and interviewee.

One empirical case study provides the basis for obtaining the research objective of the thesis. An exploratory form of study provides an insight and understanding of the research material when there is a lack of information on the subject (Yin, 2009). Some secondary data is used, which is mainly desk research as well as data from the theoretical literature.

1.7 Scope and Limitations

The financial crisis that hit Iceland in October 2008 had many consequences. The effects are to be found in almost every corner of the community. The time span of a crisis of that scale is wide. There is no exact point in time when the crisis began if the events that led to the crisis are not discounted. Likewise it is impossible to identify when exactly the crisis was over, or if they are even over yet. These thoughts are all speculative and therefore it is important to limit the scope of the research.

Before the interviews with Mr. Haarde I noted that my interests were mainly on the days just before the collapse of the banks until the worst was over. I didn't want to be more specific on the timeframe because I was concerned that Mr. Haarde would not mention or elaborate on issues outside that timeframe. After having gone through the data it is clear that what is of most importance in my research is the time from the beginning of October 2008 until the resignation of Mr. Haarde in January 2009. I will therefore limit the analysis to this timeframe.

It's much debated whether generalizability is appropriate in case studies but it is considered to be more acceptable to generalize when theoretical concepts are used as well in comparison (Daymon & Holloway, 2002). According to the Penguin Dictionary of Sociology "...a case study cannot may be useful in the preliminary stages of investigation since it provides hypotheses, which may be tested systematically with a larger number of cases" (Abercrombie, Hill, & Turner, 1984, p. 34). My research is a case study based on interviews with only one leader and the conclusions are drawn on these. For these reasons I do not intend my results to be generalized but rather serve as an indicator for a subject that requires further research.

In my research I contacted other government officials working along-side and against Mr. Haarde in order to gain a wider perspective of the situation in question. Due to unspecified determinants and circumstances I did not have the opportunity to interview these individuals. This limits the perspective of the research.

The scope of the paper is limited to its purpose and research question. It is not intended to analyze the broad issues of financial crises. Rather I would like to explore the connection sensemaking has with leadership in crises.

1.8 Biases

There is one particular bias worth mentioning. I have personally been an inactive member of the Independent Party since the age of sixteen. This can affect my perception of Mr. Haarde as a leader, and my impression of the fact that he was the only minister drawn before the special court of Landsdómur. I am aware of this possible bias, and therefore I have asked Mrs. Björnsdóttir, who does not favor the Independent Party (mentioned in Acknowledgement chapter) and is currently the financial manager for a campaign running for parliament against the Independence Party, to read the thesis over. With this possible bias in mind, I asked her to point out if there were any obvious biased statements in the paper. As mentioned before, she gave me some pointers which I acknowledged and improved.

Another bias is the fact that I have always been against the lawsuit against Mr. Haarde. This bias might also have an impact on my choice of wording in the thesis here and there, but again Mrs. Björnsdóttir helped me improve the text towards a more professional impartial manner.

2. Methodology

In this chapter I will describe the methodology used in the thesis. The choices of methodology are emphasized, and the triggers that led to justify each chapter are touched upon. The chapter is focused on the process of why the research was conducted and how it was done. I will discuss the strategy, the scientific approach and the data collection. There is also a discussion about the validity and the reliability of the research.

2.1 Research Design and Process

“The choice of research questions has implications for the topics and themes of data analysis. The selection of research sites will have implications not only for data collection, but also for the data that are available for analysis and dissemination.” (Bryman & Burgess, 2002, p. 129)

The research process started out as a single idea of exploring the circumstances that leaders face during crisis. The initial idea was to capture the essence of the experience that leaders face when crisis hit. After having gathered information about this subject it became clear that one scholar has reflected on the ideology that matched my agenda. This is the work of Karl E. Weick on sensemaking. The research subject is rather complex to investigate because the nature of crisis on this scale is hard to comprehend. Sensemaking as a theoretical tool is quite a good fit to my study because the concept deals with ambiguity and complexity. Also it captures the underlying factors that explain human behavior and how people react to stimulus from their surroundings. This is interesting because in order to research leadership and the behavior of one leader in a crisis situation, it is essential to capture these underlying factors to better understand the decision making process and the rationalization on the actions taken during crisis.

2.2 Type of Research and the Research Strategy

For researching the topics of this paper a qualitative research design is most appropriate as it would be very difficult to gather information on this matter with quantitative research. Qualitative research can take many forms; e.g. in-depth interviews, observations and grounded theory. For my research I chose to conduct interviews which I hoped would give me

a deeper understanding of the case. “Individual in-depth interviews are non-directive or semi-structured interviews in which the respondent is encouraged to talk about the subject rather than to answer “yes” or “no” to specific questions” (Schmidt & Hollensen, 2010, p. 89). With interviews the researcher may also gather tacit knowledge from the interviewee, such as observations on physical appearance and posture, as well as the affective and cognitive aspects of the responses. Sometimes the researcher will gain knowledge on the interviewee’s feelings, attitudes and ideas from the things he does not necessarily say, what he only implies or indicates. It is therefore critical that the interviewer pays close attention to the interviewee’s demeanor.

2.2.1 Case Study as a Research Strategy

A case study is, according to Flyvbjerg “an intensive analysis of an individual unit (e.g., a person, group, or event) stressing developmental factors in relation to context” (2011, p.301). Furthermore Yin (2003) reflects on case studies’ value and adequacy: “In general, case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real-life context” (p. 1). This is altogether applicable for the case of this paper as it deals with an individual unit, in this case the leader, and stresses developmental factors (leadership) in relation to the context of crises. The study proposes the questions of how the leader handled the crises situations and why he acted as he did. In particular, the study focuses on how the leader used sensemaking in a crises situation and why. Also, Schramm argues that the essence of a case study is that it attempts to give meaning to a decision or a set of decisions, why they were taken, how they were enforced and what consequences these decisions had (1971). Clearly, this is extremely relevant in the matter of this paper. In order to understand in-depth the decisions Mr. Haarde took during the time period in question and relate it to sensemaking a case study would seem to be precisely the best research method.

Yin further categorizes the design of case studies into four types; a holistic single case study, an embedded single case study, a holistic multiple case study, and an embedded multiple case study. Single case studies should be used when the study is intended to be used to test a well-formulated theory which has a clear set of propositions. “To confirm, challenge, or extend the theory a single case may meet all of the conditions for testing the theory” (p. 41). In this paper

I test and extend the theory of sensemaking to leadership in crisis situations. As such, a single case study is justifiable for the purpose. If the same study involves more than one unit of analysis it would be classified as an embedded case study. This is not the case in this paper, but rather it examines the subject in a comprehensive manner, and as such I conducted a holistic single case study.

2.3 Data Collection

In this part of the paper I will explain the data and the data gathering process. I used primary data as well as secondary for sources of information. The Special Investigation Commission's Report was a very informative part of the secondary data gathered and as such I will discuss it in a separate chapter.

Data triangulation is a concept borrowed from surveying and navigation. (Porter, cited in Bryman 1994). The analogy is that in order to locate an accurate position more than one measure must be conducted, using for example a compass, a map and depth soundings. "The underlying idea is that the wider the variety of evidence you can bring to bear, the smaller the area of doubt about your position" (p.70).

The data gathering was done in four different ways. First I gathered as much information from web-based recourses as I could find. The collapse of the Icelandic banking system has received much media attention in newspaper articles, blogs and television news coverage. This media attention has not been limited to domestic news, but the foreign media has been very keen on the subject. These media reports were a source of information. This part of the information gathering is divided into two categories, first articles and other written material and second, video clips available of Mr. Haarde, either speeches or interviews. For the second part of the data gathering I traveled to Iceland and conducted two interviews with Mr. Haarde himself. Thirdly, I gathered information from the Special Investigation Commission's report (see further chapter 2.3.3). The data gathering is in line with what Webb (2006) considers as the most reliable data gathering technique. He uses the term data triangulation, which means that if different data is combined the stronger the argument becomes.

2.3.1 Primary Data

The primary data are the two interviews conducted on the 4th and 6th of June 2012. The interviews were done in Mr. Haarde's office in Reykjavik and are approximately 40 minutes each. They were both conducted in Icelandic and with Mr. Haarde's permission I taped both interviews in order to reflect on his answers again at a later time. Before and after the formal interviews we spoke about the content of the thesis and Mr. Haarde gave me some off record pointers regarding my project that came to good use while writing the thesis. The informal chats were about 30 minutes each. Right after the interviews I wrote down notes for later references. Also I have been in e-mail contact with Mr. Haarde when I have been in need for further explanations.

The first interview was semi-structured where I explained the overall idea about my research. I only had one topic I wanted to discuss, how the financial crisis developed from Mr. Haarde's view. I told him that I was most interested in the time when he realized that the situation was turning into a crisis until the situation was stabilized. Purposely, this is a very inexplicit timeframe, the reason being that I did not want to miss out on events leading up to the crisis and in the aftermath if Mr. Haarde deemed those important. Mr. Haarde described in details how he experienced these times and how the daily life was disrupted. Although, he stressed how he and the people working around him stayed calm and focused on resolving the task delicately. Also, he described few of the first attempts to save the banks and eventually how all three big banks went bankrupt.

The second interview was based on the former interview where I brought up subjects that Mr. Haarde had already mentioned and asked him to elaborate further. In this interview I wanted to capture the facts, attitudes and the atmosphere around him during the crisis. This interview was more structured, I asked specific questions and we discussed them in detail.

In the first interview Mr. Haarde mainly talked about the financial crisis and his reaction to the crisis. Further he talked about how the events unfolded the days before the main events when he decided that Financial Supervisory Authority (FSA) would take over 70% of Glitnir's equity on October 6th 2008. Also he described the aftermath, which was when Landsbanki and then Kaupthing were taken over by the FSA and how he experienced the public reaction due to that decision.

In the second interview Mr. Haarde answered questions about the events and discussed them in more detailed manner. This was particularly helpful where he shared detailed interaction with his colleagues both in Iceland and abroad.

I transcribed the interviews I did with Mr. Haarde and broke the analysis of the interviews down to smaller parts. In the first part I listened for indications where he talked generally about the crisis. Here I tried to gather the parts and pieces on what can be seen as a general truth about the crisis, things that one has already seen in the newspaper, on the internet or seen elsewhere. Second, I listed for the information that I could not have gathered from anyone else than Mr. Haarde himself. This involves feelings, opinions and other thoughts that were detected during the interviews. In the third part I gather all other information about the crisis that does not fit into the first two categories.

2.3.2 Secondary Data

The secondary data I used is twofold. Firstly it is the material I collected from the web, both interviews and speeches about the financial crises in Iceland and Mr. Haarde's involvement. This material is in the form of video clips and some documents or web pages. Also, I used the SIC report to strengthen my arguments. Secondly, there is the academic data I gathered for the purposes of the theoretical research. These are mostly academic papers gathered from the CBS library or other academic journal databases, course material, especially from the Strategy, Organization and Leadership courses, as well as books and other literature found on found on the internet, the CBS library or suggested by fellow students.

2.3.3 The Special Investigation Commission (SIC) Report

Shortly after the financial crisis in October 2008, Alþingi established an independent committee to investigate the collapse of the banking system in Iceland. They were given total freedom to investigate all aspects of the crisis with the aim of finding out why and how it could have happened. The following text is from the report:

“The Special Investigation Commission (SIC) delivered its report to Alþingi on April 12 2010. The Commission was established by Act No. 142/2008 by Alþingi, the Icelandic Parliament, in December 2008, to investigate and analyze the processes leading to the collapse of the three main banks in Iceland. Members of the

Commission are Supreme Court Judge, Mr. Páll Hreinsson, Parliamentary Ombudsman of Iceland, Mr. Tryggvi Gunnarsson, and Mrs. Sigríður Benediktsdóttir Ph.D., lecturer and associate chair at Yale University, USA.” (Special Investigation Commission, 2010)

The report is over 2.000 pages and was published in nine volumes. Only four volumes have been translated to English and I will mostly lean on two chapters; Chapter 2, *Summary of the Report’s Main Conclusions* and Chapter 21, *Causes of the Collapse of the Icelandic Banks - Responsibility, Mistakes and Negligence*.

Chapter 2 of the report is a thorough summary of the report. There are the key findings and descriptions of the content of the report. Chapter 21 is an in-depth analysis of the events that the commission thought to be relevant in terms of the financial crisis. For example, the commission interviewed Mr. Haarde and other key actors in the events leading to the crisis. Also, the commission states clearly their opinion on these events.

The trial that Mr. Haarde stood against in 2008-2009 (Landsdómur) has been a vexed question in the Icelandic media and elsewhere since it first came up. To summarize briefly, Mr. Haarde was the Prime Minister when the financial crisis hit in October 2008. To most people it came as a surprise how drastic the banks were treated in the aftermath of the crises. Also, it was not expected that all the three big banks in Iceland would be declared bankrupt few days apart in autumn 2008.

Mr. Haarde himself has said publically that he could not have foreseen the crisis as they turned out. Despite of that, the majority of the parliament decided to take legal action against him and charge him for negligence in the events leading the nation to crisis.

This trial is most interesting in two ways. Never before in history has a political leader been charged for being responsible for a financial crisis. And second, the verdict of the court case was that he was in fact not responsible for the financial crisis. These two facts raise many questions about the motives of his political opponents, but those will not be discussed here. The interesting piece here is why a political leader is put on the spot to answer for the indiscretion of nation’s whole banking system.

The fundamental reason or the “why” I want to investigate this case is from the standpoint of the leader himself. I want to know what goes through his mind in order to know how he intuitively feels the threats imposed upon him during the time of crisis. This subject is not easy to comprehend but can give an insight into how leadership actually works during crisis.

This leads me to another concept, namely the environment. The imposing threats are coming from outside. But then a further question is: outside of what? If this question is asked from the political leader perspective, the answer is likely to come from the opposite direction, imposed on the leader himself. And that is exactly the case. Just before Mr. Haarde resigned he agitated for, as the Prime Minister, an independent committee that would investigate the financial crisis and leave no stone unturned. In the meantime the opposition came into power, and after over a year of investigation the committee came to a conclusion.

Based on the report Mr. Haarde’s political opposition, which now was in power, decided to charge Mr. Haarde for “violation intentionally committed or in great carelessness in office as a Prime Minister from February 2008 until the beginning of October the same year...” (Sakalis, 2011) on six charges. It’s not clear specifically what it is in the report that led the opposition to come to the conclusion that Mr. Haarde was responsible for the financial crisis.

I find this relevant because I want to investigate what a leader experiences in cases of unexpected events. What it is that triggers response, reveals their preferences (Beshears et al. 2008) and try to find the main driving forces in decision making under pressure. Furthermore I’m interested in finding out if, experience, charisma or other characteristics is a factor in decision making.

The Haarde’s case is interesting in this perspective because he was charged for not having done enough to prevent the crash. For theoretical analyzes this is relevant because if the prosecution had found him guilty of this they must offer other potential solutions that the former prime minister should have done under these circumstances. There is an obvious conflict between what decisions Mr. Haarde made and, in retrospect, what could have been done to prevent the financial crises in Iceland. The interesting fact about the conviction over Mr. Haarde in Landsdómur is that he was only found guilty on one of the six original charges. That was the charge relating to the way he communicated with his cabinet. It was argued that

Mr. Haarde could have done more to inform the cabinet in a more formal manner. Mr. Haarde had this to say about the verdict:

“I always found that charge to be even more ridiculous than the others. I still hold that view. It is therefore my opinion that the Court has made a grave mistake in reaching this conclusion and I therefore plan to take this case to the European Court of Human Rights as soon as I can. The whole matter will then hopefully be reviewed by that Court including several procedural flaws which I believe Landsdómur was responsible for in the early stages of the case.” (The Independence Party, 2012).

The question now is what, if anything, could Mr. Haarde have done to prevent the crisis? Landsdómur, the Icelandic court that handles cases that Alþingi decides to file against Ministers, came to the conclusion that Mr. Haarde had not brought up the issues of the Icelandic banking system to the government prior to the fall of the banks in October 2008. It is also mentioned in the conclusion of the adjudication that Mr. Haarde was acquitted in the most serious charges. Thus the conclusion does not say that Mr. Haarde was responsible for the financial crisis in Iceland and so that question still remains unanswered.

3. Theoretical Framework

In this chapter I will outline the theoretical framework used for analytical purposes. Sensemaking is the overall concept I'll use to analyze the case of Mr. Haarde. I will use the seven factors that describe the essence of sensemaking and explain each of them in detail.

For years scholars have been trying to identify the core essence of leadership. Not far behind, is the problem of defining management. What interests me the most, crisis management is somewhat intertwined in between these definitions. In the leadership section of this chapter I will address some of what has been written about leadership and tie it to the crisis management literature.

Crisis management is a wide concept that has an indistinct meaning. The understanding of the crisis itself and how it's defined must come first in order to apply the term to a real case. In this chapter I will look into various definitions of crisis and crisis management. Furthermore I will discuss the term "environment" in the crisis management literature and explain how and why it is relevant for my conclusion to combine these terms in order to answer my research question.

3.1 Sensemaking

The dominant framework used in this thesis is sensemaking by Karl E. Weick. This framework or concept is not particularly transparent or user friendly, but provides deeper understanding on how people go about in the world of ambiguity and complexity. "Sensemaking is about contextual rationality. It is built out of vague questions, muddy answers, and negotiated agreements that attempt to reduce confusion" (Weick 2001, cited in Davenport et.al. 2006). Whether sensemaking is understood as an individual process or as a collective effort, it provides an output which gives meaning to the things that we observe. But then what is it, that is observed that needs to be given a meaning? The answer is not yet obvious and needs explanation. "Sensemaking is the process of social construction that occurs when discrepant cues interrupt individuals' ongoing activity, and involves the retrospective development of plausible meanings that rationalize what people are doing" (Weick 1988). It is thus the things that are out of the ordinary that we notice when we go about our lives that

need to be explained and the process we go through to manage that, or to obtain the understanding of these “interruptions”, that is called sensemaking.

There are similarities to this ideology throughout history. For example, Descartes’ famous quote “I think, therefore I am”. This brilliant quote suggests that the existence of man is the result of his thoughts. In other words, if you don’t have the ability to sort out what you sense in the surroundings, you don’t have the *raison d’être*. Weick (1995) takes this thought further and has gathered seven similarities that distinguish sensemaking from “other explanatory processes such as understanding, interpretation, and attribution” (Weick, 1995). They are:

1. *Grounded in identity construction*
2. *Retrospective*
3. *Enactive of sensible environments*
4. *Social*
5. *Ongoing*
6. *Focused on and by extracted cues*
7. *Driven by plausibility rather than accuracy*

I will now discuss each element in detail to gain better understanding of the sensemaking process. The following analysis of the concept is grounded in Weick’s book, *Sensemaking in Organizations*, from 1995.

3.1.1 Identity

According to Weick, identities are constructed out of the process of interaction and the most important element of sensemaking. The main reason why is found in the fundamental definition of how people observe the world around them.

“To shift among interactions is to shift among definitions of self. Thus the sensemaker is himself or herself an ongoing puzzle undergoing continual redefinition, coincident with presenting some self to others and trying to decide which self is appropriate. Depending on who I am, my definition of what is “out there” will also change. Whenever I define self, I define “it,” but to define it is also to define self. Once I know who I am then I know what is out there. But the direction of causality flows just as often from the situation to a definition of self as it does the other way” (Weick 2005, p.20).

Weick describes the dynamics between the “self” and how to interpret what is “out there”. This notion of self and identity is well illustrated by Hatch & Schultz, (2008). Like Weick, they adduce the work of Mead (1934). The construction of an organizational identity is the conversation between “I” (who am I?) and the “me” (what do others think about me?). The analogy is that individual identity is constructed through these two questions. The question “*who am I*” represent the identity and the latter question “*what do others think about me*” represent the image. The “I” and the “me” have equal effect on the one another, which means that the answer to one question affects the answer to the other question. This idea is illustrated in figure 2.

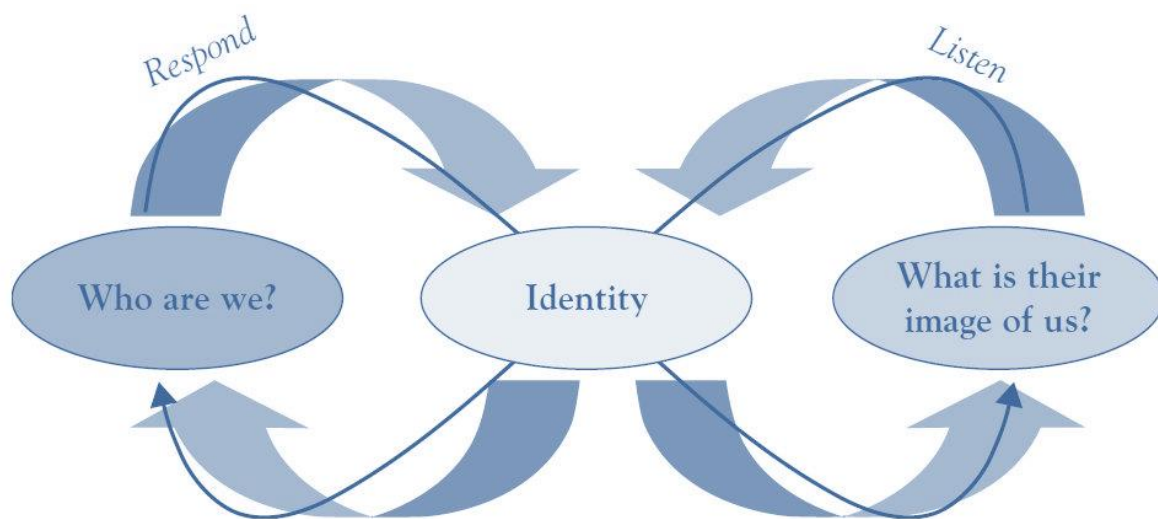


Figure 2: The Organizational Identity Dynamics Model. (Hatch & Schultz, 2008)

The core concept of sensemaking is the sensemaker. If no one is “out there” observing and connecting the dots, there is nothing to make sense of. That being said the premise for sensemaking is that someone is asking the question “*who am I*”. This may sound obvious, but in order to understand what sensemaking is, this is the basic premise.

Turner (1987) made a similar observation based on Mead’s work. He reflects on “two fundamental forces that mobilize the human thought and action“ (p. 18). These forces are the need for a sense of overall identity (Strauss 1959; McCall and Simmons [1966] 1978) and “the need to cooperate, with the latter often influencing the former in creating needs for more situational identities” (Stryker 1980, pp. 60-61). There the word “cooperation” is used to

describe the dynamics between the need humans have for their own identity and the need for overall identity.

The need for individuals to construct their identity is enacted through interaction and it is a dynamic process, that is, it works both ways as demonstrated by Hatch & Schultz in figure 2. The identity construction is important for the sensemaking process because it sets the scene for the rest of what Weick calls seven properties of sensemaking. For individuals to ask questions about their own identity and realize that they have the capability to rationalize and doubt their own perception is fundamental. This is well illustrated in the question: “How can I know what I think until I see what I say?”

3.1.2 Retrospective

The notion of retrospective sensemaking is focused on the fact that people can't know what they are doing until after they have done it. That means that *“Actions are known only when they have been completed, which means we are always a little behind or our actions are always a bit ahead of us. To anticipate a later point, if hindsight is a bias (e.g., Hawkins & Hastie, 1990), then everyone is biased all the time. The nature of time and sensing guarantee that outcome”* (Weick, 1995, p.26).

This is linked to the identity construction in a way that biases are always a factor and it matters what identity one takes on in respect to what decisions to make. The real meaning of retrospect is that past events become a memory in the mind of the sensemaker and memories can be altered over time. Also, memories can be brought back under various conditions and the sensemaker is therefore always biased.

This perspective has more truth than seems obvious at first. In physical terms, the light needs time to travel across space. Therefore the time from someone doing something until it reaches the eye of the observer, some fraction of time has already passed. So technically, when a person sees something, it is already a part of the past and the observer is evaluating an event that happened back in time. This is more obvious when looking at the sun. It takes the light approximately 8 minutes to reach the earth. This underpins Schutz's (1967) idea (cited in Weick 1995) “...*meaningful lived experience*”. The key word in that phrase, *lived*, is stated in the past tense to capture the reality that people can know what they are doing only after they have done it”(p.24). This creates a problem because one cannot know what he has done until

he has done it. So in order to observe the consequences of an action it means that it must be put into motion first. The obvious problem it creates is what happens if it fails. Retrospective sensemaking makes it impossible to learn unless previous thoughts and actions are retrieved. This is well illustrated in the question: “How can I know what I did until I see what I’ve produced?”

3.1.3 Enactive of Sensible Environments

“The term ‘enactment’ is used to preserve the central point that when people act, they bring events and structures into existence and set them in motion. People who act in organizations often produce structures, constraints, and opportunities that were not there before they took action.” (Weick, Enacted Sensemaking in Crisis Situations, 1988, p. 306)

The term “environment” is a term frequently used in organizational theory. The meaning of the word is however both simple and at the same time hard to comprehend. First, environment gives the meaning of the things in the surroundings, the landscape, whether and even buildings. Basically the things you can see or feel in any given point in time and place.

In organizational literature the word has the same intention but the meaning becomes blurry. Organizational environment doesn’t mean the view from an office window or the temperature outside the office building. It’s more a description of the forces rushed on the organization either from the inside or from the outside. External environment and internal environment are well known concepts well and broadly understood. Internal environment is something that the organizational members agree on to be, as they are at a given point. It is therefore the organizational members that observe the environment and assess it, as if it had a life on its own. External environment is the force that is pending on the organization waiting to be eliminated or to have an impact.

The point is that it is possible to see the environment as a static factor which serves as a tool to explaining or understanding any given situation or it can serve as a factor; or as Mintzberg et.al. (2009) point out “the actor” in terms of threats opposed on an organization. So there are two sets of thoughts mainstream in organizational literature capturing the term ‘environment’. The first assumes that the environment is “something out there” and the second thought

expects that the environment is “the actor” (Mintzberg, 2009). These ideas are again broken into three separate models by Smricich & Stubbart (1985):

First the *objective environment* which allows for the environment to be an independent force that the organization faces. “Nearly all strategic management research and writing incorporates the assumption that “organization” and “environment” are real, material, and separate - just as they appear to be in the biological world.” (p.725). This idea is clever as far as it gets. There is a circle around the organization and everything outside that circle is the external environment and everything inside the circle is the internal environment. This has been a popular and widespread understanding among scholars. Some talk about the environment as something given and static. Kotler (2002) makes this remark about the broad environment:

“The broad environment consists of six components: demographic environment, economic environment, natural environment, technological environment, political-legal environment, and social-cultural environment. These environments contain forces that can have a major impact on the actors in the task environment...” (p. 9).

The forces are the threats that the organization stands in front of and are real and somewhat tangible. It does simplify the threats opposing the organization but it does not explain what these forces are. Furthermore, it does not explain where these forces come from. The simple explanation is that these forces are equal to threats, but there must be something more to it. The one to say that there is a threat opposing to an organization must know these forces. This notion leads to the second model, the perceived environment.

The difference between the objective environment and the perceived environment lies in the eyes of the strategists, the one that perceives the environment. All other factors remain the same. Smricich & Stubbart argued that the strategist, under this condition is “permanently trapped by bounded rationality” (p.726). It means that in the eye of the strategists the environment is what the observer sees and senses and nothing more. In other words the boundary of knowledge does not exceed the strategist knowledge. The remaining question is how do actors in organizations recognize the environment from the reality they commonly interact with every day? That is what the third model is all about.

The enacted environment is the notion that the organization and the environment are created together (p. 726). First, it rules out the first two definitions of Smircich & Stubbard's analogy of what environment really means. Second, it provides the understanding of the forces opposing on an organization. It really means that there are no real threats and no real forces "out there". Instead, the force opposing the organization is generated together with the organization and whatever is "out there". One way to explain this is to say that if the organization would not have existed the threat or these forces would not have existed either. One cannot exist without the other. This idea rules out the environment as something "out there" and that the actor is not part of the environment. Karl Weick has a strong opinion on this:

"There is not some impersonal "they" who puts these environments in front of passive people. Instead, the "they" is people who are more active. All too often people in organizations forget this. They fall victim to this blind spot because of an innocent sounding phrase, "the environment." The word suggests something that is singular and fixed; the word environment suggests that this singular, fixed something is set apart from the individual. Both implications are nonsense" (p. 31).

3.1.4 Social

All interaction contains social contact in any shape or form. It is thus inevitable to state that sensemaking is the result of interaction and that sensemaking can only be a social process. The difference between sensemaking and understanding is the key to understanding why social interaction can only be associated with sensemaking. Understanding something means that the mind can comprehend and know the nature or the meaning of that something. (dictionary.com, Understand). Understanding can thus take place in the mind of a single person independently. "Sensemaking is never solitary because what a person does internally is contingent on others" (p. 40). If the thought or the gesture is not expressed the message is not for anyone to receive and therefore not part of the sensemaking process.

3.1.5 Ongoing

Sensemaking is as ongoing as time itself. It never begins and never stops because it is not tied to one person that can switch sensemaking on and off. Instead it is the result of the social

process mentioned above. “To focus on sensemaking is to portray organizing as the experience of being thrown into an ongoing, unknowable, unpredictable streaming of experience in search of answers to the question, “what’s the story?” (Weick et.al, 2005, p.132). In other words, “ongoing” captures the idea that sensemaking is a continuous search for changes in the surroundings that give clues to the reality behind the “story”. This involves both interpretation and emotion.

Weick (1995) describes sensemaking as an ongoing flow of actions and words passing by while working on a project. The assumption is that people are always in middle of something, and that this something is for example “projects”. When the flow is interrupted and people interpret what has happened, according to Weick (1995) it “...typically induces an emotional response, which then paves the way for emotion to influence sensemaking. It is precisely because ongoing flows are subject to interruption that sensemaking is infused with feeling” (p.45). Weick bases this analogy on ideas proposed by Berscheid (1983) and Mandler (1984, p. 180-189) on “arousal” or discharge which is an important component for understanding emotion. Weick makes the following remark about this concept; “...arousal is triggered by interruptions of ongoing activity. Arousal has physiological significance because it prepares people for fight-or-flight reactions. But of even more importance to both Mandler and Berscheid is the fact that arousal also has psychological significance. The perception of arousal triggers a rudimentary act of sensemaking. It provides a warning that there is some stimulus to which attention must be paid in order to initiate appropriate action. This signal suggests that one’s well-being may be at stake” (p. 45).

In order to refine and enhance understanding, people working on resolving day-to-day projects must recognize the bits and pieces of information that passes by. This is essential for the ongoing process of sensemaking. If sensemaking is ongoing, it is a continual process and the reaction of how people respond to this ongoing stimulus that evokes emotions by the sensemaker.

3.1.6 Focused on and by Extracted Cues

“To understand sensemaking is to be sensitive to the ways in which people chop moments out of continuous flows and extract cues from those moments.” (Weick, 1995, p. 43). These cues gathered from occurring moments are then put into words or given meaning which affect

action. The meaning becomes more significant to the current situation and has more meaning than before. This is essential to sensemaking because it captures the core of its meaning. It's not only a new understanding emerging, it is also the foundations that are changing. The important point of reference that is referred to has shifted and new meaning is being created or acted on. This part of the sensemaking process is like having an epiphany, bits of information are pieced together in a split second and new understanding of previous information creates new understanding. It is thus subject to the previous information what the new understanding is made of.

The notion of extracting cues becomes complex and ambiguous when "context" is added to the equation. As one actor extracts cue from his ongoing flow of information, another actor in the same system might not agree or dismiss the cue as non-relevant.

Weick uses a story about lost soldiers waking in the Alps. As they are about to give up hope, one of the soldiers found a map in his pocket. The soldiers regained confidence, waited for the weather to get better and used the map to walk to safety. The map saved their lives. When the soldiers came to camp, a lieutenant took a look at the map and was stunned to learn that the map that saved the soldiers was of the Pyrenees, not the Alps. This story underpins how important it is to give meaning to cues that are floating all around. In this case it was a map that triggered the soldiers not to give up hope and keep on going. They all agreed on the context of the map, they all had faith and hope that the map would bring them home safe.

3.1.7 Driven by Plausibility rather than Accuracy

The last property of sensemaking according to Weick is the speculation whether or not reasoning ought to be plausible or accurate. The same story about the soldiers that used the map of the Pyrenees to save themselves can be used to explain this element. They didn't have the right map but they found their way to safety and saved their lives. Even if they had the wrong map they still manage to find their way because the map was plausible for them at that moment but the accuracy didn't matter at all.

"The strength of sensemaking as a perspective derives from the fact that it does not rely on accuracy and its model is not object perception. Instead, sensemaking is about plausibility, pragmatics, coherence, reasonableness, creation, invention, and instrumentality" (p.57). In the story about the soldiers these elements all come together. The soldiers were coherent and

found a creative way to safety. They invented a new instrumental way, using reason, out of a situation that seemed impossible to escape from. The fact that the map seemed plausible to them at the time also made the solution seem pragmatic.

3.2 Leadership

To the naked eye, leadership is not a really complicated term. It simply means the driving force that gets someone to do something. This is not quite accurate. A more appropriate statement would be to say that no one really knows what the term leadership means. The reason that I can make such a statement is that there is no universal truth about this term *leadership*. A good leader earns his status not only because of his personality or his way of handling different situations well. There is more to it. The type of leadership applied to different circumstances is one aspect; his knowledge of the industry or the strategies to apply is another skill.

Visionary leadership is more or less like living for the vision that the “leader” has in his mind (Mintzberg et.al., 2009). This behavior is best explained by taking a recent example of the leadership of Steve Jobs’s, the late leader of Apple. He was known for following his vision and his leadership style was in fact in line with his strong belief in his vision. Another example is Martin Luther King. Simon Sinek made the following remark about his leadership in a TED talk in 2009:

“Dr. King believed that there are two types of laws in this world: those that are made by higher authority and those that are made by man. And not until all the laws that are made by man are consistent with the laws that are made by higher authority will we live in a just world. It just so happened that the Civil Rights Movement was the perfect thing to help him bring this cause to life. We followed, not for him, but for ourselves. And, by the way, he gave the “I have a dream” speech, not the “I have a plan” speech” (Sinek, 2009).

These two examples have that in common that the leadership is bounded to one person and the followers follow because they share the same beliefs as the visionary leader. This happens at one point in time; one can say that Dr. King was the right man at the right time and place. His visionary leadership was in line with the spirit of the times he lived. The same can

be said about Steve Jobs. Mintzberg rounds this analysis in a very clear way: “*So visionary leadership is style and strategy coupled together. It is drama, but not play-acting. Such leadership is born and made, the product of a historical moment*” (p.139). Mintzberg identifies another more specific set of leadership in the “Power school of thought”. By power he refers to the potential influence that individuals can have to claim certain status, also called micro power. On the other hand, the power or the influence, the organization uses to press forward issues of interest. This type of leadership is constructed through political struggle which exists in almost every organization at a considerable size.

Other schools of thoughts such as the environmental school try to find leadership a room in strategy making or dealing with threats in the environment. These different definitions of leadership certainly help to navigate through the wilderness of the problem that leadership is. But instead of clarifying what leadership is, the jungle seems to only grow thicker.

It does not come with any surprise that many scholars, including Mintzberg, recognize this as a definitional problem.

In his article *Leadership: A categorical mistake?* Simon Kelly (2008) argues that the word leadership is just a word game. The base of his notion is grounded in the work of Louis Pondy (1978) which states that leadership is nothing but a language-game. “...we seek to look beyond an epistemological need for a single conceptual definition, or unifying meaning, to instead focus on the myriad ways in which the term is put to use.” (p. 767). This idea is in line with the point I have been making here above. There is no universal truth about leadership and what it means. Many definitions are used to describe leadership but it is subject to the underlying circumstances. One such definition will be discussed in the next section.

3.2.1 Studies on Prime Minister Leadership Styles

In an article by Juliet Kaarbo (2001), she identifies five elements of prime minister leadership styles. This study further underpins how difficult it is to identify a specific leadership style as one universal understanding. The sub-

Prime Minister Leadership Style

Interest and Experience

Motivation for Leading

Conflict Management Strategy

Information Management Strategy

Party Management Strategy

branches seem to be endless and a more specific way in analysing leadership is to look at each profession and look for similarities there within for further inspection. Kaarbo's five elements of prime leadership styles are illustrated in figure 3 and present a way to better understand the leadership in the political world.

3.2.2 Interest and Experience

Prime ministers come to the office with different backgrounds and different experiences. It is stated that the „more salient the arena for leaders, the more they want to be involved in shaping policy and the more control they want over the nature of any policy“ (p.84). This assumption is subject to the background of the prime minister, either from previous ministry, or the expertise the prime minister has obtained over professional life.

3.2.3 Motivation for Leading

The debate between promoting a particular cause, popular approval and personal gain is the prime minister's main motivation for leading. The motivation for becoming a prime minister varies and the personal agenda can easily be seen as one factor in leadership style.

3.2.3 Conflict Management Strategy

One important part of being a prime minister is the ability to deal with conflicts. The leadership style can be recognized by the way the prime minister handles disagreement. The three most common ways to handle conflicts are to act as advocates and use the personal power to force a just conclusion. Another style is to settle the matters in more restful way and lastly to stay above conflicts and let others handle the matters for them.

3.2.4 Information Management Strategy

Handling and processing information is an indicator of how an individual is organized and therefore can be seen as a contribution to leadership style. „... [I]nformation in a cabinet setting is usually channeled through individual ministries, the form in which the prime minister likes to review the information can vary.“ (p.84). One way to handle information is to let other staff members evaluate data and summarize the key points.

3.2.5 Party Management Strategy

The dual role of a prime minister is that he is most often also the leader of his own political party. The nature of politics is the constant debate of policy making and how to communicate the message coming from the party. This means that they have to deal with party factions and stand guard towards their position within the party. As Weller (1985) states: “[P]rime ministers are party leaders; they hold the former position only as long as they hold the latter.” (p.11, cited in Kaarbo, 2001, p. 85). This can cause a conflict between the prime minister and some of the coalition partners within the party and the strategy that the prime minister uses to sort out this kind of conflict may seem competitive. One such strategy is to “use policy making to gain ground against them” (p.85).

3.3 Crisis Management

There are many different ways to define crisis. Generally it is used to describe negative circumstances that occur and have a negative impact on people. The website *dictionary.com* provides the following definition: “*a condition of instability or danger, as in social, economic, political, or international affairs, leading to a decisive change.*” (dictionary.com, Crisis). This is a typical definition whereas words like “instability” and “danger” are used to describe circumstances leading to a decline opposed to previous condition.

In the organizational literature the word “crisis” is as much debatable as Gilpin & Murphy (2008) point out. They have summarized the meaning of the word in their book *Crisis Management in a Complex World* where they suggest that crisis is a complex phenomenon and “often cannot be contained within a single organization, geographical area, or economic sector” (p.12).

Shrivastava et.al. (1987) made a model of crisis management which is useful in order to gain perspective of what crisis management involves (figure 4). This model shows the proactive and reactive measures and how the *crisis* is only one aspect of the whole picture. For sensemaking the distinction between the detection and the crisis itself is an important measurement which will be discussed in next section. The dynamics of the model is shown clearly with the arrows pointing from each of the four circles even though they are numbered from one to four. The main idea in this model is that someone detects something out of the

ordinary that evolves into crisis. The time in between is assigned to prevention and preparation. If that process fails the crisis hit as illustrated in the model. Between the phase II and III the results from the preparation phase are transformed into action by mitigating the positional damage. The next phase is the recovery phase where the transformation from crisis mode to normality is the main focus. This means that measures are taken to guide the organization on the right track again by using tools like public relations plans and crisis management teams. Lastly, the learning phase is where all processes are reevaluated and improved for the use of prevention so that it can be better prepared in the future. If the model is assessed as one whole the wider image becomes clear. Some crises are impossible to prevent, but when they hit there are a few things that can be done to decrease the effects and contain the situation. At this point the infrastructure is put under a test and what is done and how it's done becomes an issue of importance. This leads to the next discussion, namely what these measurements involve.

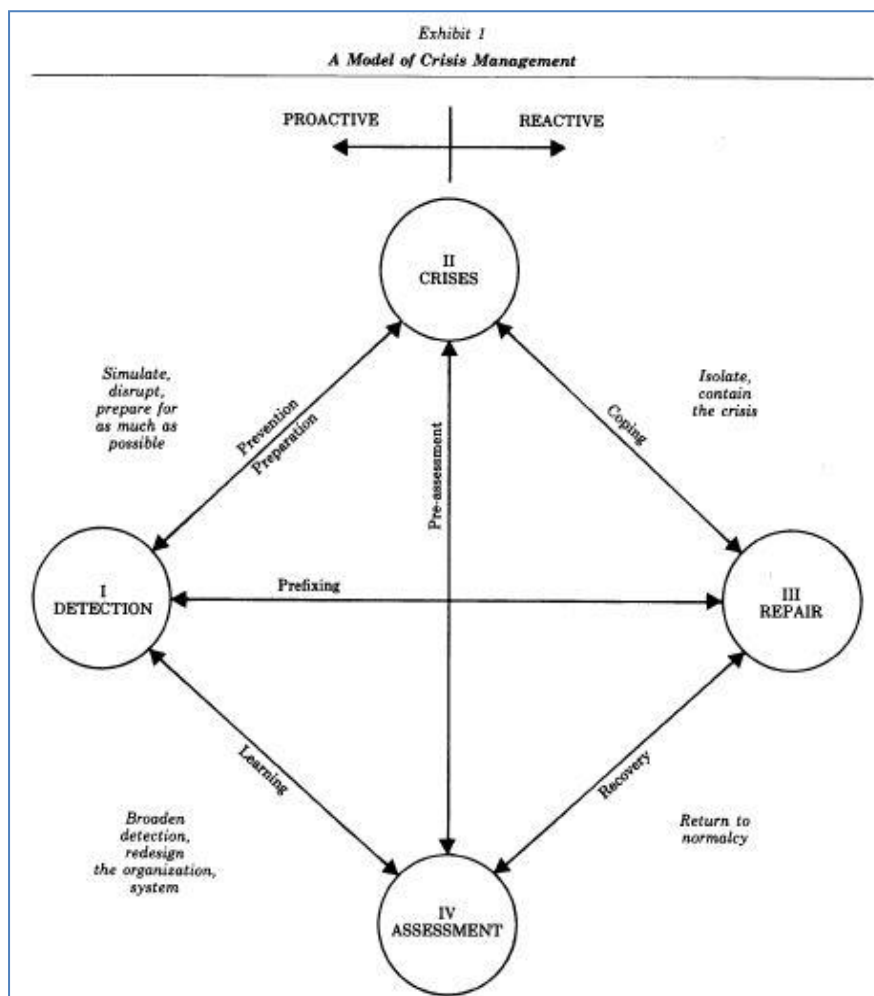


Figure 4: (Shrivastava, Mitroff, & Udwadia, 1987, p. 284)

3.4 Leadership and Crisis

What triggered this research in the first place was the fact that the Icelandic parliament decided to charge Mr. Haarde without an obvious crime. It was astounding to learn how many people spoke publically about the trial on negative terms assuming Mr. Haarde was to blame for the financial crisis in Iceland. But that set aside, my interest lies in how leaders react to crisis.



Figure 5: Leadership under Severe Stress (Larsson et.al, 2001)

Larsson et.al (2001) made an interesting research model (figure 5) based on interviews with military officers in Norway and Sweden. In their analysis they recognize that leadership can be understood as a relationship between the characteristics of the leader and the organizational characteristics. In their research they discovered two main characteristics that made it easier for leaders to command under severe stress.

Bearing in mind that this study was done on military bases, the findings cannot be

fitted directly into my case, but there are surprisingly many similarities that I want to address.

3.4.1 Characteristics of the Leader

General person-related characteristics involved both good physical shape and psychological balance. What is noteworthy is that it did not seem to matter if the leader was extrovert or introvert. What mattered most is that the leader knows his strong and weak points. This implies that leadership under stressful situations is not evaluated in the same way as it would be under normal circumstances.

There were four *profession-related* characteristics identified in the research. First, participants found that experience played a role in the leaders' ability to lead under pressure. Another aspect was social and task related factors. This means the leader's ability to take proper care

of the group's members, listen to them and show certain empathy during the stressful situation. Consideration was the third label which has to do with how leaders seem to have difficulties handling strong feeling in stressful situations. Lastly, identification and commitment was found to be important for followers because the leaders did not identify them self as leaders in crisis situation and failed to commit to that identity.

3.4.2 Organizational Characteristics

In the study *organizational characteristics* are divided into two parts. On the one hand it is structure and values of the organization and on the other hand it's the structure and the values of the organizational members. First the participants found it was a critical factor in crisis situation that the organizational structure was well established. An interesting finding was that the participants thought that formal hierarchy and strong sense of how is responsible for each task in the everyday life was just as important as the freedom of expression of one's opinion without considering the formal hierarchy. In the study this is described as two layers of structures laid down on the same organization, the free network structure on top of the formal hierarchy. This is reported to be important in crisis situation because when the crisis hit, there is a certain bone structure that is formal and reliable, but actors can use the informal interaction under the stressful situation: "The more an informal network structure dominates a course of events in everyday life, the more effective the formalized command structure will become when the network structure steps back during severe stress and vice versa" (Larsson et.al. 2001, p. 444).

The other aspect, the organizational members, was mainly two aspects. One was person- and profession related characteristics. That means that crisis leadership should be facilitated if the organizational members were able to identify themselves with one of the two characteristics. The second aspect is *group cohesion*. Many of the participants mentioned that a mutual trust and respect among the actors were important. These elements made working under stressful situations easier.

3.4.3 Everyday Leadership

"A leader must be a leader full-time, all of the time. It is this sort of leadership that followers learn to trust and do not question during periods of severe stress." (Larsson et.al. 2001)

Trust-building Leadership

Five groups of responses were detected in this part of the study. First there was perceptibility. That means that in normal situation the leader is visible and at hand. Factors like socializing with others and show interest and actively listen to them was a factor to earn trust. Trust does not come easily, it must be earned and that can take time.

Next factor found in the study was respectful treatment of individuals by leaders. This part regards the subordinates view on how leadership should be done. The most common phrases that came up were; “leaders should be fair and consistent, show care and consideration for individuals and groups and not merely think of themselves; leaders should also recognize the potential and knowledge of soldiers; they should be flexible enough to adapt to the group, be humble, have a good sense of humor, and a glint in the eye” (p.445).

Third aspect was coded freedom to speak one’s mind. In the findings of the study it is pointed out that there is a potential paradox between evaluation and development. This means that if the evaluation process is carried out too strongly, it might affect development. Other points were mentioned, a good working environment should allow for fairness in communication and the freedom to speak one’s mind should be a part of a good organization. Fourth and fifth group dealt with values, morals, sincerity, and competence. A good leader should be able to communicate the values and express clearly what he or she stands for. Also, the leader should be a good role model and show good example by practice good morals and show sincerity. Competence was specially related with leadership under stress and is discussed in more detail under the heading: Leadership under Severe Stress.

Exercises

Under this section both positive and negative aspects of exercises were discussed. The positive aspects were that participants felt that they were better prepared for unexpected circumstances but the negative aspects were that it could lead to false sense of security. Here it must be kept especially in mind that this is a study on military personnel.

3.4.4 Leadership under Severe Stress

As the researchers point out the recurrent theme in the study is that mutual trust must be earned between the leader and the group members. This is evident both in every day

leadership and in leadership under severe stress. Also another factor that will be discussed further in this section is the competence mentioned above. Two kinds of answers were detected in the study in relation to competence of the leader. One was task-directed leadership and the other was relationship-directed leadership.

Task-directed leadership

The first code that was detected under this heading was *stop and survey* the situation. This point emphasizes that leader should stop and take a moment before rushing into anything. The reason is to gain perspective on the big picture before taking action. This also implies that the leader should estimate the seriousness of the action he or she is about to make and be sure that he or she is not making the crisis worse than it is already.

Second code in the study is thinking ahead. This means that the leader must take initiative in crisis and be able to think ahead. Proactive thinking is described in the study as “another example of the absence of proactive thinking is when a commander shows obvious signs of insecurity regarding what should be done next. This in turn creates a tendency towards a feeling of insecurity within a group. The inability to constructively think ahead can also lead to excessive consideration of the group and insufficient attention to the tasks in hand“(p.446).

The third code that the researchers found is risks with excessive courage. Under stress some participants recorded rather harsh leadership style. These leaders described under this heading are reported to be selfish and psychologist pointed out that leaders of this type are dangerous. They give a bad impression to others and don't trust their team. Instead, they argue, “I'm the only one with a brain.” Even if these leaders are highly qualified and competent within their current fields, they absorb far too heavy a workload personally and risk a speedy “sinking” (Larsson et.al. 2001, p.446).

Managing one's own personal feelings is the fourth code and is about the balance of showing too much feeling and no feelings at all. Either too much or too little vulnerability have the effect that people easily lose their confidence in the leader. Another aspect reported is the tone of voice; it matters in stressful situation to speak with milder tone in order to lower the stress factor.

The last code is *clarity towards senior officers*. Leaders can lose trust if they don't have the right information in hand. This can easily happen in the situation where leaders don't have the courage to ask for further directions from higher authority. Also it can happen if leaders don't question unclear commands. Again, this can lead to even more uncertainty down the hierarchy.

Relationship-directed Leadership

First under this heading is the code *distinctive role of a leader*. This means that under stress it is not always easy to be authoritative and send out clear message at the same time. This is especially common for inexperienced leaders. It is important to communicate the right message to the right people and it is delivered in the way that the receiver understands the importance of the command.

Next is *motivation of group members prior to tasking*. This is to prepare people for the stressful event by positive motivation. It does matter what information is given prior to stressful situation and how it's delivered.

Third group of responses dealt with Individual consideration through activation. To show consideration means here to actively show that the leader is concerned about the subordinates. For a leader to ask someone to do something can be considered more concerning than simply giving a tap on the back.

The last responses are *labeled crisis management following an acute situation*. The responses were divided into two groups. One group mentioned how important it is for the leader to deal with the individuals affected by the acute situation. The issues followed by an acute situation can be of many kinds. In the study issues like; grief, anger, doubt, and guilt are mentioned. The latter group mentioned the leader's symbolic role following an acute situation. This role includes all communication to the press and the media, being an external spokesperson for the group and to express grief and sorrow.

3.5 Leadership under Pressure

Kimhi, (2001) made an interesting psychological profile on Benjamin Netanyahu, the former Prime Minister of Israel. When he was under a lot of pressure "he [would] often withdraw

during crisis with a stomachache” (Goren & Berkowitz 1996, p. 87, cited in Kimhi, 2001). Also he would panic under stress and there is at least one recorded incident when he panicked and “lost his cool” (p.156). People who have worked closely with Netanyahu have also reported on his somatic reactions during stress: “he will often withdraw during a crisis with a stomachache” (Goren & Berkowitz, 1996, p. 87). This type of somatic reaction is indicative of a coping mechanism stimulated by feelings that Netanyahu is unwilling either to admit or to express (Kimhi, 2001, p. 156).

This research shows that even the most powerful leaders in the world can be affected by crisis situations and withdraw under stressful situations. Another example of leadership under stressful situation is from the Cuban missile crisis. The US President John F. Kennedy recognized that the situation was critical and wanted his advisors to give their honest opinion. He held back his own thoughts and asked his brother, Bobby to take over the meetings from time to time so his advisors could honestly state their opinion on the crisis. (Dotlich, Cairo, & Rhinesmith, 2009). This narrative shows just how much effect a leader can have on his followers, and even more importantly, how leaders are in fact alone at the top of the hierarchy.

These two examples are show two extreme examples of leadership under pressure. My intention is not to elaborate further on those two examples, rather to demonstrate how crisis can conjure up different reactions to crisis situations. It is not given that leaders react to crisis situations in a manner that one would expect.

Boin et.al, (2005) divide leadership in crisis into five main tasks: sensemaking, decision making, meaning making, terminating, and learning. In their work they adequately capture the role of the political leader in crisis situations and manage to explain these factors in a well-defined way. Leaders must determine the opposing threats and decide what the crisis is about. It is their job to actuate a system that is able to extract relevant information and make sense out of this information. But as Boin et.al. (2005) point out, there are some barriers to crisis recognition that are found in the mechanisms linked to the complexity embedded in the system.

If this task is already a handful, how well prepared are they to cope with emerging crisis. The point they make is that modern organizations do not collect data on unknown events that have the potential to escalate into a crisis situation.

3.6 Crisis Reaction

When searching on the internet for answer to the question “*how to handle crisis in business*” many articles and good advice come up. What most of them have in common is that there must be a plan in place to be prepared when the crisis hits e.g. Pincus (2007) and Moran (2011). This is the essence of crisis management and perhaps the most important factor when it comes to handle or deal with crises situations.

The discussion in this section relates to what it means to plan for crisis and what can be expected. The paradox in this notion is that if an organization is prepared for every pending threat, the threat wouldn't necessarily evolve into crisis. In that case, the definition of crisis would have to be redefined to the extent that the prelude to the crisis itself would be left out completely. This point is also stressed in Boin et.al (2005) “Policy makers want to be seen to be in control of the crisis. This is quite a challenge because if they really were in control, there would presumably be no crisis. Yet they need to get across the idea that ‘*yes, it is tough, but we are hanging in there, and will be able to deal with the problem*’” (p.78).

„To sort out a crisis as it unfolds often requires action which simultaneously generates the raw material that is used for sensemaking and affects the unfolding crisis itself.“ (Weick, 1988, p.305).

4. Analysis and Discussion

In this chapter I will compare my data to the theories mentioned above. I will navigate through the case of Mr. Haarde's leadership during the financial crisis in Iceland and compare it to the models and theories I have introduced. My idea on writing the analysis is to write it like a handbook or guideline for leadership under extreme circumstances. The idea is to bring out the parts in sensemaking and leadership and then combine these two elements into one set of how to manage crisis under these circumstances. There are some limitations to this method which I will point out but in this way I can make my findings clearer and more sensible.

When it comes to crisis, everybody involved has their own story to tell. This is especially true when the crisis is over. It is always easy to tell the story when the event is over and the storm has settled. Then there is time to evaluate the events in hindsight and evaluate the time period and assess what happened. This is the luxury that storytellers have, not the leaders that must take action in the middle of the storm.

During the interviews Mr. Haarde told me one story about Icelandic helicopter pilots working to save Icelandic sailors in the rough seas around Iceland. He said in the interview that he talked to one of the pilots after a dangerous rescue mission and that the pilot almost aborted the mission because of the rough sea. The waves were too high and men hanging from the helicopter were at too much risk because the ship beneath him was waving up and down in an unpredictable way. Then he evaluated the situation and decided to give it a one last go, because it was obvious at the time that if they would leave, they would have left them there to die. The helicopter pilot and his crew saved all the sailors and flew them to safety.

This conversation was a bypass when we were discussing crisis in general and my official interview was over. Still I think it's important because it shows the mindset of a leader steering a country that earns its living on the resources in the sea and believes there is no such thing as giving up in critical situations.

In our discussion, Mr. Haarde also talked about the crises that had occurred in Iceland, some small and other on a bigger scale. One of those, being the eruption of Eyjafjallajökull, that

affected thousands of tourists around the world. Plans were set in action and everyone knew their place and the crisis were handled in the best manner.

In fact what I found out in my interviews with Mr. Haarde was that plans exist to every possible crisis thinkable and are likely to happen. As he said himself:

“...we here in Iceland are used to natural disasters and are always well prepared to deal with it at any time. We have outstanding civil defense system and know how to operate it at length; it has been tested to the extreme many times” (Haarde, 2012).

4.1 Early Signals

In the crisis management literature the signals that could and should have been acted on are thought to be the triggers that allow crisis to evolve. This is evident in Shrivastava et.al, (1987) where they elaborate on the Bhopal tragedy. “First, and perhaps most important, is that most crises are preceded by a string of early warning signals. To prevent some major crisis, organizations need only learn to read these early warning signals and respond to them more effectively“ (p. 283). Boin et.al (2005) demonstrate how the CIA and FBI were incapable to compare intelligence prior to 9/11. The early signals were out there but no system in place to solve the puzzle.

The Icelandic financial crisis did not hit over night. There were early warnings which can be traced well back in time and some of which are mentioned in the SIC report. One such signal came from Danske Bank in 2006 in a report that was called *Iceland: Geyser crisis* (Valgreen et.al, 2006). The report stated that the Icelandic economy was showing signs of weaknesses and the Icelandic currency was over rated. The reaction to the report was not exactly friendly. the following quote is from a response that came from Glitnir bank after the publication of the Geyser crisis report: “The Danske Bank report looks written with the intent of putting the Icelandic economy in the most unfavorable light possible. ...there are numerous inaccuracies and errors, which...serve to paint a bleaker picture than the facts would warrant.” (Jóhannesson, 2011)².

² The quotation is borrowed from Mr. Jóhannesson’s website. He refers to another source that has been deleted. Mr. Jóhannesson is a well known scholar in Iceland and I trust that this quotation is accurate.

Another sign came from the Central Bank of Iceland. In their report on the Icelandic economy from 2005 and 2006, there is a summary of the three big rating agencies. All of them rated the banks with A's and the ratings of Icelandic sovereign debt (figure 6 and 7) were triple A's. This would indicate that the health of the Icelandic financial system was in good state.

Republic of Iceland credit ratings						
	<i>Affirmed</i>	<i>Foreign currency</i>		<i>Domestic currency</i>		<i>Outlook</i>
		<i>Long-term</i>	<i>Short-term</i>	<i>Long-term</i>	<i>Short-term</i>	
Moody's	July 2005	Aaa	P-1	Aaa	P-1	Stable
Standard & Poor's	October 2005	AA-	A-1+	AA+	A-1+	Stable
Fitch	August 2005	AA-	F1+	AAA	Stable	

Figure 7: Republic of Iceland Credit Ratings 2005, (Central Bank of Iceland, The Economy of Iceland, 2005)

Republic of Iceland credit ratings						
	<i>Affirmed</i>	<i>Foreign currency</i>		<i>Domestic currency</i>		<i>Outlook</i>
		<i>Long-term</i>	<i>Short-term</i>	<i>Long-term</i>	<i>Short-term</i>	
Moody's	August 2006	Aaa	P-1	Aaa	P-1	Stable
Standard & Poor's	June 2006	AA-	A-1+	AA+	A-1+	Negative
Fitch	February 2006	AA-	F1+	AAA		Negative

Figure 6: Republic of Iceland Credit Ratings 2006, (Central Bank of Iceland, The Economy of Iceland, 2006)

It's evident that the signs were in place and all the material was there to prevent the crisis. The question is then obvious; why did the financial crisis hit Iceland? The answer is not to be found in one leader, one office or one government. If sensemaking is collective and it is spread around the "system" the answer must be hidden elsewhere. Signs are everywhere to be found and impossible to react on. Some signs are plausible and some are accurate. But it is unreasonable to expect a leader to be able to distinguish between those two.

4.2 Haarde's Experience

The main findings after having interviewed Mr. Haarde are that leadership under extreme circumstances is not as clear cut as I thought. The difference between crisis management and leadership under extreme circumstances are so blurry that it is impossible to distinguish between those two elements.

But instead I realized that if managing under extreme circumstances is defined as crisis management, then there must be something wrong with the typology. That is, it raises the question about where leadership under extreme circumstances fits in. It can even be argued that the leadership under the circumstances of Mr. Haarde during the banking crisis in October 2008 was simply task management (or issue management), few days of problem solving, and then back to “business as usual”.

Here I make a clear cut between the task of solving a particular problem and the circumstances that Mr. Haarde was working under. The task is fairly easy to cumulate, but the circumstances were unique. Mr. Haarde confirmed this in the interview when he said that when the crisis hit he, his staff and advisors came together and tried to find the best solution to the problem. It took a few days and evidently they came to a conclusion and the job was done.

4.3 Identity Constructions and Leadership

As stated earlier the identity construction is the key element in the sensemaking process. This does not mean that Mr. Haarde’s identity is the main focus, rather how his identity is reflected and constructed through his actions. As Hatch & Schultz (2008) pointed out the identity is a conversation between the “I” and the “me”. A logical point of view is to say that the more interaction one individual has the stronger the identity construction becomes. This thought can be taken further and argued that one component of strong leadership is how well the leader succeeds in interacting with others. The evidences are there, many great leaders are often good in human relations. Another aspect of identity construction is how one defines the world around him. The way one does that also defines who he is. (Weick, 2005). Mr. Haarde gave some indications when he discussed the crisis in one of the interviews when he described the real danger that rushed on the Icelandic economy in October 2008. He described how close the whole economy was to entire collapse on a Sunday evening when there were strong indicators pointing towards a run on the Icelandic banks. Something had to be done quickly to avoid a total chaos. A special emergency law was negotiated that night. In his words: “That’s why this danger was so quickly overcome, that is a total run on the banks, because if that would have happened it would have meant a total chaos and we would have expected food-riots, people would not have been able to pay for food, companies would not

be able to pay salaries, also it would have resulted in serious drug- and goods shortage ... We manage to prevent all this to happen...” (Haarde, 2012). Although it’s impossible to get into the head of someone to see how he or she sees the world, this description of the situation that evening says that there was a huge pressure for the cabinet to solve this problem and that it was done and the ones that took part in resolving the problem manage to do so with positive outcome.

Assuming that identity is constructed through interactions, it must also affect the ability to resolve problems. If identity is under constant scrutiny through interactions the identity must evolve over time. As it does when it develops in childhood it must continue to evolve through time. This means that identity construction is of second nature. The implication is, through interaction in more challenging environment a stronger identity is produced. In order to resolve a problem like Mr. Haarde described above, one key component is strong identity construction.

4.4 Retrospect

One of the most fundamental ideas of sensemaking is that it can only happen in retrospect. This brings out the fact that if thoughts and actions are only to be learned from in retrospect, then no one really knows the outcome. In crisis situation when people have to work fast to resolve the crisis this notion is particularly unfortunate. In many cases there is simply no time to test various outcomes.

Mr. Haarde’s dilemma prior and during the crisis was that he could not reveal what he really knew about the situation the banks were in few months before they went bankrupt. He gave up several reasons for this. First, no one really knew how or if the banks would survive the debt crisis they were in. As Mr. Haarde said about the issue: “We didn’t know for sure that it would happen and therefore I didn’t want to say „well, now the banks are going bankrupt and what can we do to help?“ (Haarde, 2012). Another reason was that he could have been held responsible for the bankruptcy if he would have made it clear that the banks were having difficulties refinancing. But at this point the press was beginning to question the situation and starting to publish articles about the banks, the press could not get clear answers about the situation and some tension was starting to build up.

4.5 Environment

When the financial crisis hit Iceland the atmosphere among the people changed. This phenomenon was not some black cloud that appeared over the island and stayed until it decided to head south. Instead this phenomenon was created by many individuals that had to do with the banking system in Iceland. Mr. Haarde said that no one really expected this type of crisis and in fact there were no plans available to deal with a crisis at this magnitude.

„But we were not prepared for this kind of crisis. Financial crisis was a complete novelty and no one expected this outcome, that all of the three big banks would go bankrupt at the same time. This was of course mostly the result of what was happening on the international markets that it happened in this way. But then it has been unfolding what was going on inside these banks that weakened the banks, something that we could not have known.“ (Haarde, 2012)

It is clear by this reaction that the crisis came with very short notice. There was no time to prepare for the crisis. When asked about a plan to follow in a situation like this Mr. Haarde replied that there is nothing that could have prepared them for this kind of crisis:

“...the foreman in the other government party was in a hospital in New York. This was so...I mean the coincidences were so many, just that it had to happen exactly at this point in time...it was quite unbelievable and was extremely inconvenient. There were so many things that we could not foresee and many things that we could not get answers to in some book about the subject, it was all so unusual, unforeseen and new to us.” (Haarde, 2012).

To keep these two quotes above in contexts, these descriptions are Mr. Haarde's reaction to the extreme circumstances that he as the prime minister was facing at the time. After the interview he described to me the plans that were in place if one financial institution would go bankrupt or there would be run on one bank, an urgent situation that would have needed quick solution.

The enacted environment in crisis situation is an interesting concept. It brings in the actors that created the environment and holds them responsible. The key for leaders in crisis situations is to be aware of the construction of the environment and not to be fooled of the

“complex environment” and act as the situation is something that is forced upon them. A good leader in crisis situation is the one that overcomes this obstacle and is aware that the situation is co-created in alliance with the people involved.

4.6 Ongoing–Social

The ongoing social process of sensemaking is the part that is most obviously tight to everyday life. The emphasis is on the people involved, and in crisis situations it is the people resolving the crisis that must be aware of what is going on. For crisis not to escalate into untamable beast the right people with the right skills must be focused on the situation and notice what goes on around them. When the ongoing flow of information is interpreted one must be aware of the arousal that triggers emotion. In a complex world this becomes a problem if the person that is on the lookout does not have the competence to do his job properly. Unusual information or signal might slip through and the situation could easily worsen. It is surely impossible to identify one signal that triggered the financial crisis in Iceland and that’s not my intention. Rather, I want to make the point that in crisis one important aspect is to have enough manpower to resolve the problem and to be on the lookout for signals. The Prime Minister’s Office is a small workplace as Mr. Haarde said when he described how many people took part in working on a solution to the crisis.

“...it also has to be realized how small our system really is. In the Prime Minister’s Office, there were only few people, a few individuals. The Central Bank was of course much larger and had much more resources, also the Ministry of Finance and Economic Affairs although it was much smaller than the Central Bank. So that the work in this case rested in really just a few people, a few ministers and the employees of ministries, that is the work that was next to me. So this is not like in larger countries were you just click your fingers and someone does the job.” (Haarde, 2012).

It should be noted that in later stages there were consultants, both Icelandic and from abroad, working on the crisis as well. Asked about the workload, Mr. Haarde admitted that the workload was enormous during the crisis and people were working from early in the morning and sometimes late into the night. That’s understandable but at fragile times there is some minimum risk involved.

4.7 Cues

To focus on extracted cues means, what meaning is given to what seems to be unconnected information and by its self has no meaning at all. To capture this information and act on it makes the previously unconnected information useful. In crisis this is essential because solutions to crisis are in most cases to be found outside the normal manuscript of traditional management manuals. This underpins what Mr. Haarde said: “There were so many things that we could not foresee and many things that we could not get answers to in some book about the subject” (Haarde, 2012). So in Haarde’s case he had to be the one to steer the team that was working day and night, looking for the map that would essentially lead to cover. Like stated previously, Mr. Haarde did not have the knowhow or the experience to lead the country out of a crisis like this. In fact, maybe no individual has experience a financial crisis of this magnitude. So what had to be done was something that no one had done before. In this case the solution came in form of emergency laws that were enacted after every other option to save the banks had been ruled out.

4.8 Plausibility

As discussed above the solution to the crisis was to enact an emergency law to prevent the banking system to collapse completely. New banks were established on the ground of the old ones and the general public never experienced any inconvenient in respect to the service level of the banks. In other words, the banks were never closed and the operation was kept ongoing in spite of their bankruptcy under a new name. Mr. Haarde recognized that the emergency laws were controversial and in sensemaking terms, maybe not accurate:

“As you would expect, a lot of pressure and stress will follow a decisions of this kind, although this decision had been made automatically. But in regard to the Emergency Act, then there were factors that were very untraditional but were meant to prevent total chaos here in the domestic banking system. By giving the Financial Supervisory Authority the power to split up the banks that sought their aid, and that the new part of the banks could administer domestic banking – and then there were clauses about changing the rank of creditors, and so all in all the bottom line in all that was that the deposits would be higher ranking than other unsecured credit – and such that the

loans the banks had taken abroad would be subordinate to deposits. Anyway, what did happen there could be said to be action taken to insure that the domestic banking system could continue to operate without problems, and it did. There were only a few minutes in the middle of the night that there was minor delay, otherwise everything went smoothly and the general public that was not following the news at that time was not aware of anything out of the ordinary” (Haarde, 2012).

Mr. Haarde describes the new emergency law as necessary measures to prevent total chaos. He admits that the law was not perfect but the main goals were achieved: Of course we knew that there were some controversial issues that would be tested before the courts later. That was not the most important issue at that moment and since then a lot of issues have been tried before the Supreme Court, or at least several issues. It has been tested whether these laws would hold and there has been a ruling that they have. You could say that we took a certain amount of risk but at the time there was a need for valuing the interest of the majority over the minority, and put the interest and welfare of the nation above all.

4.9 Leadership

In the thesis I have gone through various types of leadership. I have chosen to discuss leadership both from the crisis perspective and from a more general perspective. The difference between these two leadership perspectives is clear, especially because leadership in crisis situations is distinguishable for several reasons. First, leadership in crisis is more task oriented as demonstrated both in Shrivastava’s et.al. crisis model and in Larsson’s et.al. leadership under severe stress model. Another reason is that crisis management deals with unexpected situations that can be more unpredictable and puts everyone on an alert.

What I want especially to point out is how similar Larsson’s model of severe stress among military personnel is to actual crisis. The specifics in the study are surprisingly similar to the descriptions from Mr. Haarde of the crisis in Iceland. There are of course some details in the study that cannot be seen directly in traditional organizational context, but if the severe stress model is viewed from a reasonable distance it can certainly be applied to my case.

Kaarbo’s five elements of prime minister leadership styles show specifically the characteristics that have been identified in her studies on prime ministers. These

characteristics are in line with the characteristics described by Larsson et.al. and thus fit to the optimal leadership style in crisis situation. First Kaarbo identifies *interest and experience* of a leader. This is also one of the first things mentioned in Larsson's et.al. model. They identified under the category *profession-related characteristics* four types that were important in crisis. The first characteristic reported to be one of the key factors in handling crisis was experience. As stated in the background chapter Mr. Haarde does not lack experience. He has been a part of Icelandic politics for many years and served as the Minister of Finance and of course as the Prime Minister.

Second characteristic that Kaarbo mentions is *motivation for leading*. This is somewhat reported in Larsson's et.al. study but not directly. Motivation for leading can barely be seen as something that characterizes leadership directly. This is more an underlying factor that is more likely to affect certain decisions and as such can have an indirect influence on the leadership style. In Larson's et.al. model the leaders' values and morals are detected as having an impact on the leadership under pressure. It is extremely difficult to evaluate these characteristics in a leader that is interviewed and studied. This is not something that I can ask Mr. Haarde directly because it is unlikely that he would tell me if his motivations for leading were to gain higher personal status or something else in that direction. But in his descriptions of the crisis he mentioned that he realized that the Emergency Law could have some consequences, but was willing to look past that notion in order to prevent more damage than already was done.

The third characteristic in Kaarbo's model is *conflict management strategy*. This is also in line with the Larsson's et.al. study where they talk about how leaders handle stressful situations. This point is mentioned more than once in the study, e.g. both in the *everyday leadership* chapter and under *relationship-directed characteristics* chapter. Some of the most important issues mentioned are how messages are communicated in times of crisis and how mutual trust is important in crisis situations. In Haarde's case, he expressed the importance of trust when he talked about how only few people were participating in to solving the crisis. There were only people he trusted 100% and the fact that the leader of the other party in the cabinet was absent because of illness made this process even more difficult.

The next important characteristic is the *information strategy*. In Larsson's et.al. model it is mentioned how important it is to be a good communicator. Special emphasis is put on how

important it is for leaders to be good role models and to be able to represent the group, especially regarding the media and the press. In the financial crisis in Iceland this was the task Mr. Haarde solved both on his own and with other ministers. In his words:

“There was constant demand for interviews from abroad and you would have to find time to respond to those. I did that either after the press conferences or as exclusive interviews. I talked to all media of importance; CNN, BBC, Al Jazeera, Russia Today and French and German television stations, in addition to the reporters from all the newspapers. Hence, it was a major operation which needed to be well-organized.”
(Haarde, 2012)

Last characteristic in Kaarbo’s analysis is the *party management strategy*. This point is only important for the purpose of analyzing prime ministers. But I want to make the point that it is possible to generalize this point of view because leaders are often in a position of authority in more than one place at a time. Even though their regular day job, or their main identity, is attached to their most prominent position, their leadership skills are put in use in other places alongside their main job. Mr. Haarde had to deal with not only the cabinet, but also his own political party where he was the leader. He had to inform the party of what was going on and did so by meeting with the party regularly during the crisis.

Other aspects of leadership discussed in the thesis such as the situation the former US. President Mr. Kennedy and the former Prime Minister of Israel, Mr. Netanyahu found themselves in. This is to illustrate how leadership under pressure is in fact done in real life. There are so many complications and different ways to handle the stress and many ways to handle staff members. Also there are many ways to filter information as the information is emerging. The story about President Kennedy and his brother Bobby illustrate that well. Boin et.al. elaborate on this complexity and point out that in the modern organizational world there is no system that can detect the kind of information that has the potential to escalate into crisis.

5. Conclusion and Further Perspectives

There are many things that can be said about sensemaking. In the thesis I have shown that sensemaking is a process that emphasizes on awareness of information floating around, also called cues. I have also shown that there is no sufficient system that can detect these cues and categorize them in a way that this information can be interoperated and processed as potential triggering for crisis. This notion also implies that there is in fact no system available that can handle such tasks. The reasons are that the complexity and ambiguity of the enacted environment, and these are extremely difficult to comprehend.

I have introduced an extension of the sensemaking process in the direction of being more adequate for understanding the emergence of crisis. In addition, I have shown the important leadership characteristics a leader must possess.

As to whether or not sensemaking is suited for leaders, as a strategic tool, the assessment from this research is that it can be assumed to be useful. This issue still requires further research as this single case study cannot be the only grounds for such a fundamental generalization.

The main conclusion is that there are many strategic factors in the sensemaking process that can be drawn out and put into the leader's strategic tool box. My initial thought was that this process would have to be co-created alongside the leader. This is because there are no indicators on how this perspective would affect decision making and how information would otherwise be detected and evaluated. This is speculative and needs more research.

I hope this study leads to further research on crisis management and sensemaking. It is my true believe that the path towards more effective crisis management and how leaders should think about crisis is to be found in the sensemaking literature. This has been my effort to steer future research in that direction.

6. Bibliography

- Abercrombie, N., Hill, S., & Turner, B. (1984). *Dictionary of sociology*. Harmondsworth: Penguin.
- Althingi.is. (2009, May 4). *Althingi*. Retrieved August 22, 2012, from Geir H. Haarde: <http://www.althingi.is/altext/thingm/0804514749.html>
- Berscheid, E. (1983). Emotion. In H. H. Kelly, E. Berscheid, A. Christensen, J. Harvey, T. Huston, G. Levinger, et al., *Close Relationship* (pp. 110-168). San Francisco: Freeman.
- Boin, A., Hart, P. '., Stern, E., & Sundelius, B. (2005). *The Politics of Crisis Management: Public Leadership under Pressure*. New York: Cambridge University Press.
- Bryman, A., & Burgess, R. G. (2002). *Analyzing qualitative data*. London and New York: Routledge.
- Davenport, T. H., Leibold, M., & Voelpel, S. (2006). *Strategic Management in the Innovation Economy*. Erlangen: Publicis Corporate Publishing and Wiley-Verlag GmbH & Co KGaA.
- Daymon, C., & Holloway, I. (2002). *Qualitative Research Methods in Public Relations and Marketing Communications*. London: Routledge.
- dictionary.com. (n.d.). *Crisis*. Retrieved September 25, 2012, from Dictionary.com: <http://dictionary.reference.com/browse/crisis>
- dictionary.com. (n.d.). *Understand*. Retrieved September 9, 2012, from www.dictionary.com: <http://dictionary.reference.com/browse/understand>
- Dotlich, D. L., Cairo, P. C., & Rhinesmith, S. H. (2009). *Leading in Times of Crisis: Navigating Through Complexity, Diversity, and Uncertainty to Save Your Business*. San Francisco, CA: Jossey-Bass.
- Flyvbjerg, B. (2011). *The Sage Handbook of Qualitative Research*. Thousand Oaks: Sage Publications.

- G.Burgess, R. (1984). *In the Field: An Introduction to Field Research*. London & New York: Routledge.
- Gilpin, D. R., & Murphy, P. J. (2008). *Crisis Management in a Complex World*. New York: Oxford University Press, Inc.
- Goren, B., & Berkowitz, E. (1996). Mi ze? [Who is he?]. *Ha'ir*.
- Haarde, G. H. (2012, June 4 & 6). Interviews with Mr. Haarde. (A. Úlriksson, Interviewer)
- Hatch, M. J., & Schultz, M. (2008). *Taking Brand Initiative: How Companies Can Align Strategy, Culture, and Identity Through Corporate Branding*. San Francisco, CA: Jossey-Bass.
- Hemphill, J. &. (1957). Development of the leader behavior description questionnaire. In R. S. Coons, *Leader behavior: Its description and measurement* (p. 7). Columbus : Bureau of Business Research, College of Commerce and Administration, Ohio State University.
- Iceland, C. B. (2005). *The Economy of Iceland*. Reykjavik: The Central Bank of Iceland.
- Iceland, C. B. (2006). *The Economy of Iceland*. Reykjavík: The Central Bank of Iceland.
- Jóhannesson, G. T. (2011, October 6). *Gudni Th. Johannesson*. Retrieved October 2, 2012, from gudnith.is: <http://gudnith.is/files/GOLD%20RUSH.pdf>
- Kaarbo, J. (2001). Linking Leadership Style to Policy: How Prime Ministers Influence the Decision-Making Process. In O. Feldman, & L. O. (Eds), *Profiling Political Leaders : Cross-Cultural Studies of Personality and Behavior* (pp. 81-96). Westport, CT: Greenwood Publishing Group, Inc.
- Kimhi, S. (2001). Benjamin Netanyahu: A Psychological Profile Using Behavior Analysis. In O. Feldman, & L. O. Valenty, *Profiling political leaders : cross-cultural studies of personality and behavior* (pp. 149-165). Westport, CT: Praeger Publishers.
- Kotler, P. (2002). *Marketing Management, Millenium Edition*. Boston, MA: Pearson Custom Publishing.

- Maitlis, S., & Sonenshein, S. (2010, May). Sensemaking in Crisis and Change: Inspiration and Insights from Weick 1988. *Journal of Management Studies*, pp. 551-580.
- Mandler, G. (1984). *Mind and body: Psychology of emotion and stress*. New York: Norton.
- Mead, G. H. (1934). *Mind, Self and Society*. Chicago: University of Chicago Press.
- Mintzberg, H., Ahlstrand, B., & Lampel, J. (2009). *Strategy Safari - Your complete guide through the wilds of strategic management*. Harlow: Pearson Education.
- Moran, J. (2011, October 21). *Brookline Public Relations*. Retrieved September 29, 2012, from Crisis Communications: <http://brooklinepr.com/blog/2011/10/21/crisis-communications/>
- Pincus, A. (2007, September 24). *Businessweek.com*. Retrieved September 29, 2012, from Bloomberg Businessweek Companies & Industries: <http://www.businessweek.com/stories/2007-09-24/how-to-handle-a-crisisbusinessweek-business-news-stock-market-and-financial-advice>
- Pondy, L. R. (1978). Leadership is a language game. In M. M. Lombardo, *Leadership: Where else can we go?* (pp. 87-99). Durham, NC: Duke University Press.
- Ring, P. S., & Ven, A. H. (2000). Formal and Informal Dimensions of Transactions. In A. H. Ven, H. L. Angle, & M. S. Poole, *Research on the management of innovation :the Minnesota studies* (pp. 171-192). New York: Oxford University Press.
- Saetre. (1998, June 26). Nafn greinarinn. *Nafnið á blaðinu* , pp. 36-98.
- Sakal.is. (2011, September 6). *Sakal.is*. Retrieved August 13, 2012, from Sakal.is: <http://www.sakal.is/media/skjol/Parliamentary-resolution.pdf>
- Schein, E. H. (2010). *Organizational Culture and Leadership*. San Francisco, CA: Jossey-Bass.
- Schmidt, M. J., & Hollensen, S. (2010). *Product Development and Target Market Segmentation*. Essex: Pearson Education Limited.

- Schramm, W. (1971). *Notes on Case Studies on Instructional Media Projects*. Washington: Working Paper for the Academy for Educational Development.
- Schutz, A. (1967). *Phenomenology of the Social World*. Evanston, IL: Northwestern University Press.
- Shrivastava, P., Mitroff, I. I., & Udwadia, F. E. (1987). Effective Crisis Management. 283-292.
- Sinek, S. (2009, September). *TED*. Retrieved October 15, 2012, from How great leaders inspire action:
http://www.ted.com/talks/simon_sinek_how_great_leaders_inspire_action.html
- Smircich, L., & Stubbard, C. (1985). Strategic Management in an Enacted World. *Academy of Management Riview*, pp. 724-726.
- Smricich, L., & Stubbart, C. (1985). Strategic Management in an Enacted World. *Academy of Management Review*, pp. 724-736.
- Special Investigation Commission. (2010). *sic.althingi.is*. Retrieved May 20, 2012, from Report of the Special Investigation Commission (SIC): <http://sic.althingi.is/>
- The Independence Party. (2012, June 5). *The Independence Party*. Retrieved June 5, 2012, from Mr. Geir H. Haarde former Prime Minister. His statement on the verdict delivered by Landsdómur.: <http://www.xd.is/i-brennidepli/frettir/nr/1768>
- Turner, J. H. (1987). Toward a Sociological Theory of Motivation. *American Sociological Review*, Vol. 52, No. 1, 15-27.
- Valgreen, C., Christensen, L., Andersen, P. P., & Kallestrup, R. (2006). *Iceland: Geyser crisis*. Danske Bank A/S.
- Weick, K. E. (1988, July). Enacted Sensemaking in Crisis Situations. p. 306.
- Weick, K. E. (1995). *Sensemaking in Organizations*. London: SAGE Publications, Inc.
- Weick, K. E., Sutcliffe, K. M., & Obstfeld, D. (2005, July - August). Organizing and the Process of Sensemaking. *Organization Science*, 409-421.

Weller, P. M. (1985). *First among equals*. Cambridge: Cambridge University.

Yin, R. K. (2003). *Case Study Research: Design and Methods*. London: Sage Publications.

Appendices

Appendix I: A CD Recording of the Interviews with Mr. Haarde