# Leading by Example: How Businesses Avoid Disastrous Lawsuits by Having Strong and Encouraging Leaders

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Having strong and encouraging leaders is an essential component of success in any business. Specifically, CEOs who lead by example demonstrate the capacity to help companies avoid disastrous lawsuits or mitigate the outcomes of lawsuits, securing a better future for companies. Major companies have instruments at their disposal that protect them from lawsuits, including teams of lawyers and a system of rules that ensure the appropriateness of behavior and responses to critical situations. However, large businesses often find themselves trapped in unpredictable circumstances where the primary instruments of protecting one's reputation and financial stability do not work. As demonstrated by successful cases of mitigating the disastrous impacts of lawsuits, CEOs should lead by example in critical situations and demonstrate transparency, responsibility, the ability to accept one's mistakes, a willingness to get the needs of other parties of conflict met, and an innovative approach to finding solutions to issues at the center of lawsuits.

An efficient leader can help a company avoid disastrous lawsuits even if the company is about to face public outrage for its actions inevitably. At times, searching for new and alternative ways to handle the storm of public outcry works well. In 2010, Toyota was faced with a disastrous decision to recall millions of cars in the U.S.A. and Japan due to malfunctions that occurred during the manufacturing process, which resulted in a series of lawsuits from disappointed customers seeking financial compensation (Cole, 2011). The top management of the company came up with an unconventional solution to address the issue through an online conversation with customers using the platform *Digg*. What added value to the conversation is that Toyota's CEO Jim Lentz himself appeared on the platform to answer the questions of the complainants (Parboteeah & Cullen, 2013). He gave a fully transparent interview, answering hundreds of hard questions without any moderation of the conversation. This successful case demonstrates how transparency and openness is a way for corporations to minimize the impact of previous fallouts (Parboteeah & Cullen, 2013). What is more, it is essential for top management and CEOs to accept responsibility without trying to blame others or redirect customers to the PR team. Such a stance serves as a powerful tool to induce customer trust even in situations when a company makes critical mistakes.

One of the crucial qualities of a top manager who leads by example is his or her adaptability to situations and the ability to intuitively and empirically come up with solutions that are likely to work best within given circumstances. When crises occur, companies are likely to face an uncountable number of lawsuits from a large pool of plaintiffs, so it is highly unlikely for companies to dedicate extra attention to each of the cases. This is not the scenario that the American manufacturer of turf maintenance equipment Toro got into when it faced mass lawsuits in the 1980s. The legal actions occurred as a result of the company's activity with machinery that led to annual injuries in the hundreds ("How Leaders Emerge," 2019). The company's CEO, Ken Melrose, who was invited to the company as a crisis manager after the financial difficulties experienced in the 1980s, chose to address this problem with the help of the empathetic treatment of the incident’s victims.

The decision of the company to address the lawsuits in informal ways resulted in the change in perspective for the injured victims. The company's representatives met with the victims of the incidents and discussed the implications of their issues with them, voicing the concerns of the company and offering help when needed ("How Leaders Emerge," 2019). Before the conversations with the victims on behalf of the company took place, approximately 50 percent of the injuries caused by the company ended in lawsuits. After the conversations occurred, the number of lawsuits dropped to one, which indicated the overall success of the strategy chosen by Melrose. This particular case demonstrates how strong and encouraging leaders can avoid disastrous lawsuits by adhering to the needs of customers. In a way, both of the cases of CEOs leading their businesses out of disastrous lawsuits demonstrate the importance of not being detached from the way their company affects people. Toyota's CEO Jim Lentz and Toro's Ken Melrose both accepted the consequences of their actions in different ways and were rewarded with the opportunity to avoid the prolonged disastrous effects of lawsuits on their businesses they were in charge of.

Whereas successful cases of avoiding disastrous lawsuits have leaders accept full responsibility, situations where CEOs lead their companies to a legal disaster usually involve a lack of accountability. The poor leadership skills of a CEO and the inability to handle disastrous lawsuits can easily ruin popular companies with a long history and consistent following. One example of this is American Apparel, a clothing manufacturer that had more than 250 stores in the U.S. at its peak in 2011. As of March 2017, all the stores of the company have been closed due to the disastrous legal situation founder Dov Charney placed the company in. The issues started in 2009 when the Immigration and Customs Enforcement Agency found that more than 25 percent of the company's employees in the manufacturing unit in the Los Angeles area were illegal immigrants (McIntyre, Hess & Weigley, 2013). In 2011, Charney brought more problems upon the company when he faced sexual harassment lawsuits. The chain of disastrous legal issues continued with Charney facing allegations after one of the ex-managers of the company stated that Charney choked him and threw dirt into his face (McIntyre, Hess & Weigley, 2013). The allegations against Charney and the consequences of his disastrous behavior resulted in his suspension and consecutive replacement, but the company never recovered fully from the chain of issues and became an online-only retailer.

The case of American Apparel demonstrates not only how poor management and questionable ethical practices can bring down a well-established company but also that a CEO has to be responsible in all aspects of his or her life, as it influences the company directly. A cogent CEO has to demonstrate accountability and ethical behavior and not be accused of such misdeeds as sexual misconduct and assault, as these charges may possibly bring the company down even after the CEO is replaced. Cases like this demonstrate how a CEO is a primary actor in avoiding disastrous lawsuits, and how his or her mistakes may come at a high price.

To conclude, notorious cases of major companies facing lawsuits demonstrate that almost any crisis can be mitigated if top management willingly steps in and seeks resolutions while fully assuming responsibility for one's actions. At the same time, disastrous lawsuits can ruin successful companies if the CEO behaves in a way that puts the reputation of the company in question. Influential and encouraging leaders understand how their behavior affects other stakeholders, and think about the way their personal actions affect the company as a whole.

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