Crisis Management for Leaders

Program 1
COVID-19 As a Novel Risk Management Challenge

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Crisis Management for Leaders
Program Schedule

- COVID-19 as a Novel Event and Risk Management Framework
- Coping with Sudden Changes in Cash Needs and Availability
- Structuring the Organizational Response
- Case Studies on Identifying (or not) and Managing Novel Risks
- Case Discussion: Chilean Mining Rescue, and Summary
Covid-19 is a medical phenomenon. The **COVID-19 CRISIS** goes beyond that.

1) Leaders have to manage the Covid-19 event as a whole event

2) Issues include:
   1) Medical
   2) Financial
   3) Supply Chain
   4) Economic
   5) Psychological
   6) …

3) Need an *integrated, comprehensive process*
The Covid-19 Event

You already know the key facts …

… they are now obvious and all around us.

So let’s move on to what we can do about it.
From where you stand …

What level of restrictions are you seeing where you are now?

- None
- Voluntary self-isolation
- Mandatory isolation
- No public meetings
  - With more than 50 people
  - With more than 10 people
  - With more than 2 people
- Mandatory closures of schools
- Mandatory closures of businesses

CHOOSE ALL THAT APPLY
From where you stand …

- By what percent do you expect your firm’s revenues to be down next month?
  - Expect an increase
  - Expect no change
  - Expect less than 10% reduction
  - Expect less than 25% reduction
  - Expect less than 50% reduction
  - Expect greater than 50% reduction

PLEASE CHOOSE ONE
Today’s Session

Develop an understanding of the nature of this event …

… and what that implies about our leadership tasks
## Managing Routine Risks

<table>
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<tr>
<th>Risk Categories</th>
<th>Controllability and Relationship to Strategy</th>
<th>Control Approaches</th>
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| I. Preventable (undesirable) risks | Organizations can prevent or cost-efficiently minimize occurrence of risk.  
There is no strategic benefit from taking these risks. | Internal control  
Boundary systems  
Mission and value statements  
Internal audit |
| II. Strategy execution risks     | Taking these risks is essential for achieving strategic returns.  
Organizations may reduce the likelihood and impact in cost-efficient ways. | Risk identification with risk maps and registers  
Risk mitigation initiatives and risk owners  
Resources allocated to fund the risk mitigation initiatives  
“Chief Worry Officer” |
| III. External risks             | Organizations cannot control the occurrence of such risks, but may be able to prepare and thus reduce their impact. | Risk “envisionment” via scenarios and war games  
Contingency planning  
Insurance and hedging programs (limited use) |
How is this different from other significant emergencies / events?

What characteristics of this event make it different from what you have seen in past events?
So … what do we do?

What do we do …

… when *no one knows* what to do?

There are no pre-existing, off the shelf answers.
And there is a myriad of problems never seen before.
Major Emergencies are a VOLCANO

1) Issues
2) Competing priorities
3) Questions
4) Decisions
5) Tasks

In routine emergencies, these are familiar and easy to identify, and there are known solutions.

In an unprecedented situation like Covid-19, VIRTUALLY NOTHING IS KNOWN.
What are some of the unusual issues/ questions / decisions you are now facing?

Chat in about especially unusual things you are seeing

Let’s all just look at the list for a few moments...
So ... what do we do?

What do we do ... when *no one knows* what to do?

**WE HAVE TO FIGURE IT OUT, IN REAL TIME, UNDER STRESS**

*That is what Crisis Leadership is.*

*AND THE WAY YOU HAVE BEEN FEELING IS HOW IT FEELS.*

This is our new (Covid-19) normal ... **for a TEMPORARY, but INDEFINITE** period.
In an unprecedented crisis, there are no pre-cooked \textit{answers}. All we can offer is the best \textit{process}.

1) Resist the pressure to provide quick answers (most of them will turn out to be wrong)

2) Remind yourself and others that
   - We don’t yet fully understand the situation
   - The situation is continuing to change
   - It will take time to learn / develop the best approaches

3) Activate the best \textit{process} you can with the best people you can recruit
The answer to *every Covid-19 question* … is a *PROCESS*

What are the key elements of the approach we need?

1) Structure

2) People

3) Problem-solving method
I. Establish a Critical Incident Management Team and Process

1) Oversees all aspects of the event (medical, financial, logistical, economic …)
2) Seeks to identify and understand evolving and emerging issues and competing priorities
3) Reframes issues as questions / decisions
4) Deliberates about key questions and decisions
5) Formulates and delegates problem-solving for specific issues to other groups
6) Communicates to inside and outside constituencies
A quick word about communications…
(... more to follow in the third session)

Regular, transparent, truthful

The “Stockdale Paradox”

In dire circumstances, leaders must do two things:

(1) Be *brutally honest*; and

(2) Provide a *rational basis for hope*
II. Assemble the Right People: Find and Recruit Three Groups

1) People who know the firm, its customers, its suppliers, its operations …

2) People who have expertise in epidemiology, medicine, public health, and public policy

3) People who understand and represent the firm’s key priorities, values, and constituencies

(Note: these groups may overlap!)
Change the team as the event continues to unfold

Rosters:

- SME₁
- SME₂
- SME₃
III. Engage in Iterative, Agile Problem-Solving

(0) Establish goals, priorities, and values  
Moral reasoning

(1) Understand the situation  
Description

(2) Develop options  
Creative

(3) Predict outcomes for each option  
Analytical

(4) Choose the best course of action  
Executive

(5) Execute  
Administrative
Does that look familiar?
IT SHOULD!

The problem-solving method by a thousand names: agile process, design thinking, OODA Loop, …

It is *the HBS case method* (!) … From your first day:

Here’s a set of case facts …

… of varying relevance and certainty

People with goals and interests

No expert to ask what the answer is

*From your first day at HBS, you have practiced this …* over and over and over and over
IV. Create Conditions for Successful Agile Problem-Solving
(more to follow in the third session)

1) Facilitated deliberation
2) Diversity
3) Psychological safety
4) Joint *inquiry*, not *advocacy*
V. Execute Chosen Actions, But Treat Them as *Tentative* and *Experimental*

1) In routine situations, reliable, correct, efficient, effective answers are a reasonable expectation.

2) In unprecedented situations, *everything* we are doing is an experiment in real time.
VI. Set Reasonable Expectations

What you can reasonably expect:

Best efforts
Rapid learning
Not everything we try will work
We’ll keep working until it does
Covid-19 is a *terrible* challenge … … but there are reasons for optimism

**Business Leadership**: intelligent, creative, adaptive, decentralized …

**RESILIENCE**

is adaptability, personified … … and we are just *getting started*
Business leadership as a resource for society

A reservoir of creativity, ingenuity, imagination, invention, problem-solving …

This is what you do every day – only now it is:

More *valuable* than ever

More *urgent* than ever
As we speak ...  
... entrepreneurs are hard at work

Saxon’s River Distillery (Brattleboro VT)
175-proof gin → hand sanitizer

Similarly, Bacardi converted a plant in Puerto Rico to produce 1.7m 10-oz units of hand sanitizer

(Not to worry: they promised this won’t interrupt production of Bacardi Rum!)
As we speak …

… entrepreneurs are hard at work

An HBS alum from the session Tuesday morning:

Scaling up a business that builds modular health facilities

Elon Musk – SpaceX and Tesla

1200 ventilators within a week
Resilience is the **essence** of the system of free-market capitalism

We *always* **underpredict** the adaptive capacity of the free market system …

… because *we* can’t see how *they* will do it

But we aren’t the ones who have to see it(!)

*They* are!

In *their* business, in *their* context, with *their* customers, working around *their* constraints
Going forward

- New issues will continue to arise
- Important priorities will be in conflict
- Place confidence in your process
- Re-work the problem, continuously
  WE place our faith ...
  ... in your leadership
Taking Care

- Be safe – keep your distance
- Help keep others safe
- Take care of yourself -- you are an important resource for all of us
  - Anxiety and constant surprise and problem solving are weary-ing …
    - Seek (episodic) sanctuary
    - “Give yourself permission” when needed
- This is going to be a marathon
We’ll meet again in a week …

- Please chat in suggestions, questions, topics – we will try to adapt our future sessions

- Next topic: managing liquidity and resource allocation with Fritz Foley and Malcolm Baker

- All best wishes as you learn your way forward through the coming week.