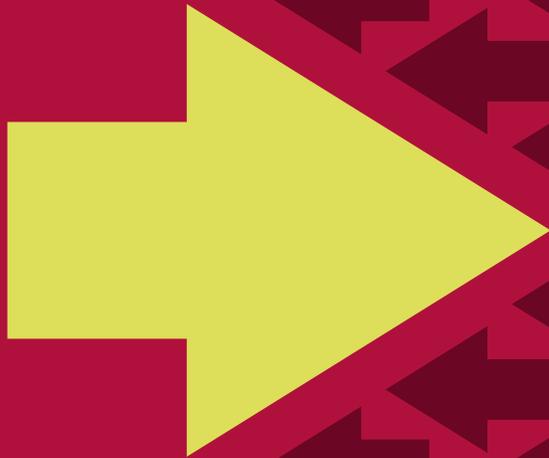


COVID-19 as a Novel Event & Risk Management Framework



Herman “Dutch” Leonard & Robert S. Kaplan

**CRISIS MANAGEMENT FOR LEADERS:
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**HARVARD
BUSINESS SCHOOL**

COVID-19 as a Novel Event & Risk Management Framework

In the first program of HBS's series on Crisis Management for Leaders, professors Dutch Leonard and Bob Kaplan led a discussion about the unprecedented nature of the COVID-19 crisis and the best problem-solving process for business leaders to use at this time.

The nature of this crisis is unlike any that business leaders have ever experienced.

COVID-19 is a medical phenomenon, but leaders must view and manage the COVID-19 crisis as a whole event with human, financial, supply chain, economic, and psychological issues.

During this program, HBS alumni from across the globe shared perspectives on what makes this event unique. Responses include the pace, size, and scope; the global reach, which differs from most crises that are local; the personal and business impact; the level of stress; and the uncertainty of when this crisis will end. Participants expressed anxieties about the health of loved ones and worried, "Will my organization survive?" About 30% of participants expect their firm's revenues to be down by 50% or more in the next month.

There is no off-the-shelf playbook for what to do.

Most companies have become proficient at using a standard risk-management approach to manage routine risks. The general approach is to categorize routine risks as operational risks, strategy execution risks, or external risks. Organizations use tools, such as risk maps, to assess each risk's probability and consequences, and then develop plans to manage these risks.

But standard risk-management tools work best when there is low uncertainty about a risk's frequency and consequences. When uncertainty is extremely high, known risk-management tools don't apply. This is the case with COVID-19, for which we have no playbook or off-the-shelf answers.

There is a "best process" for leaders to use in this crisis—which is familiar to HBS alumni.

The question leaders are asking is, "What do we do?" The challenge is compounded by having to figure out answers in real time, under tremendous stress—the fundamental challenge of crisis leadership. With COVID-19, crisis leadership will be the new normal for a temporary but indefinite period.

When confronted with an unprecedented crisis, there is pressure to provide quick answers. Dutch Leonard advised resisting this pressure, as quick answers are often wrong. He suggested reminding yourself and others that we don't yet fully understand the situation; the situation is continuing to change; and it will take time to learn and develop the best approaches.

MAIN IDEAS

- COVID-19 is an unprecedented crisis.
- There is no off-the-shelf playbook for leading during this crisis.
- But there is a "best process"—which is familiar to HBS alumni from the case method.
- This agile problem-solving process involves establishing goals, understanding the situation, developing options, choosing the best option, executing, and repeatedly iterating.
- Despite the enormous challenges faced, there are reasons for optimism—mainly, the capabilities of business leaders and the resilience of free market capitalism.

"We've developed tools for dealing with routine risks. What's happening right now is really quite different."

Bob Kaplan

Most important, while there are no existing answers—and while each organization’s answers will vary due to different circumstances—there is a *process* leaders can rely on. The key elements are structure, people, and a disciplined problem-solving method. The key steps are:

1. **Establish a critical incident management team and process.** This team (of 10 to 15 people) will oversee all aspects of the event for the organization. Tasks includes understanding the situation, deliberating key questions and decisions, formulating and delegating problem solving, and communicating. These teams typically meet and communicate daily.
2. **Assemble the right people.** Three types of people are required. People who: a) Know the firm (its customers, suppliers, operations); b) Have expertise related to the crisis (such as epidemiologists and public health experts); and c) Understand and represent the firm’s values and constituencies, such as employee representatives. While the core group may remain the same, the rest of the team is dynamic and can change as the situation changes.
3. **Engage in iterative, agile problem solving.** This is the crux of the process. Iterative problem solving has many names: agile, design thinking, the OODA (observe, orient, decide, act) loop. Regardless of the name, the key elements are similar:



0. Establish goals, priorities, and values
1. Understand the situation
2. Develop options
3. Predict outcomes for each option
4. Choose the best course of action
5. Execute

After making the best decision and executing, iteration is critical; all actions must be viewed as real-time experiments and all decisions as tentative. The team must constantly repeat the process, starting with reiterating the goals and values.

HBS Preparation: The steps should be familiar to HBS alumni—because they are the essential elements of the case method. The case method involves being presented a set of facts, understanding the situation and the conflicting priorities, assessing options, and making the best possible decisions—often with imperfect information in uncertain situations.

4. **Create conditions for successful problem solving.** Important conditions for problem solving include facilitated deliberation, diversity of perspectives, psychological safety, and joint inquiry, *not* advocacy. Reasonable expectations, like getting a commitment to rapid learning or understanding that everything the organization tries won’t work due to the nature of experimentation, are a necessity. The ultimate expectation is to have faith in the process and persist.

“Leaders have to manage the COVID-19 event as a whole event . . . and need an integrated, comprehensive process.”

Dutch Leonard

“The basis for making our way forward is our problem-solving, case-oriented capability.”

Dutch Leonard

“From your first day at HBS, you have practiced this over and over and over.”

Dutch Leonard

Despite the tremendous difficulty of the moment, there are reasons for optimism.

Without question, COVID-19 is a terrible, unprecedented challenge. Yet cautious optimism is appropriate. This optimism is grounded in business leadership that is intelligent, creative, ingenious, and adaptive and in our decentralized system of free market capitalism that is entrepreneurial and resilient.

Conclusion

COVID 19 is an unprecedented event. Standard risk-management frameworks are inadequate and there is no playbook for what to do. The best advice is to establish a critical incident team with the right people and embrace an agile, iterative problem-solving process. The case method has prepared HBS alumni to lead this process.

Additional Resources

- View the complete program lineup for [Crisis Management for Leaders](#)
- Download the [slides](#) from this program
- View a [video](#) of this program

“We always underpredict the adaptive capacity of the free market system”

Dutch Leonard