

Harvard Business School (HBS)

Crisis Management for Leaders

5-Program virtual series

Summary notes

March 24, 2020 - Session 1

Joe H Noreña

COVID-19 as a Novel Event and Risk Management Framework

Faculty: Professors Dutch Leonard and Bob Kaplan

1. Introduction

Over the course of three weeks (March 20-April 10), Harvard Business School (HBS) faculty ran a five-webinar series on crisis management through the COVID-19 event. The coronavirus outbreak has disrupted every organization and each of our lives in unexpected ways. For business leaders, managing this specific event risk and confronting the associated uncertainty and change has been complex and all-encompassing.

This paper captures my summary of the first webinar for the Armstrong Wolfe COO/CCO community. Over 2,000 HBS graduates, spanning many countries and industries, participated in the series, sharing their thoughts, ideas, and concerns. I hope to give you, as leaders, a time to stop, take a breath, and reflect on the powerful guiding principles shared by HBS faculty members and alumni business leaders to help you manage and lead during these uncertain times. For a deeper dive, see the webinar recording link at the end.

2. Unprecedented Times

The COVID-19 crisis is very different from crisis events we are familiar with managing and problem solving for. It impacts everyone, and none of us has full control of the solution. We need global, as well as local, responses and coordination.

The impact of this virus is moving so fast that we don't have time to figure out solutions ahead of time, causing a high level of uncertainty, and therefore stress. It's distracting us from other events that are occurring as part of our day-to-day personal and business life.

Finally, we can't see a clear time when this will end or what the exit strategy will be. As countries come to grips with limiting the spread of the virus and managing their overstretched health systems, many questions arise, such as:

- How does one get back to business as usual?
- What will business as usual actually look like?
- When will we know international travel can return to its regular routine?

Leaders need to manage this crisis rapidly, as there is more to come, and there is not one general solution we can go to. It's extremely challenging to turn any size organization 'on a dime', so agility, communication, and a framework to guide fast decision making are critical.

3. Tractable vs Intractable Risks and Crisis Leadership

Our usual risk management framework is set up to manage:

- Preventable risks – Operational activities which are managed through Audit and Internal Control frameworks (among others)
- Strategic execution risks – Risks that come from executing on a strategy
- External risks – Risks which are familiar to, but no fault of, the organization, like a common natural disaster

These are Tractable Risks, meaning we have some awareness of their frequency and consequences. We plan for them, have some experience with them, and in some cases have implemented solutions. They are Business As Usual (BAU) risks.

The COVID-19 crisis is an Intractable Risk, as we are really managing the uncertainty of frequency and consequences. The event is highly fluid, and we are uncertain of solutions or correct decisions.

Crisis leadership is about resolving multiple issues in real time and under high stress. It requires rapid innovation, operating under a high level of uncertainty and dealing with competing priorities. There will be questions we do not know the answers to and tasks we may not know how to deal with. Since we don't know when the end will arrive, we need to rapidly develop a new normal of operating under this high level of uncertainty.

So how do we do that?

4. The Framework

Even though this crisis has so many uncertainties, we still need a framework to work through these issues and times. Professor Dutch Leonard guided the group through such a framework, which focuses on three key elements: Structure, People, and Problem Solving.

Structure

Leaders need to establish a 'Critical Incident Management and Process' team. This team is responsible for embracing the event, identifying the sub-events, and keeping track of them. The leaders of this team must foster collective awareness by creating an environment in which all voices can share their issues. All the important and relevant business functions need to be part of this team. (Note: what is 'relevant' may change due to new events, so tomorrow's team may look different from today's.)

The focus of this team is *not* to solve each issue. Its job is to attain and assess the full picture of the overall business impact, prioritize problems, and delegate accordingly, as well as ensure there is one line of communication.

People

What does the structure of this team look like? As mentioned, you need people who know all aspects of the business and how it operates. At times, you may also need subject matter experts from outside your industry who understand the event. This might include medical staff, policy experts, or vendors, to name a few. Invite anyone that can help your team understand issues that lie outside your organization's business expertise.

You should also include people who understand and represent the firm's values and culture. This is critically important because these are the foundations of the firm. These foundations are there to help and guide you through uncertainty while firefighting. These voices could be an employee, a client, or a regulator.

Be aware that as the problem changes, you do not want the team to just grow in numbers – adjust the composition of the team to optimize for relevance.

Problem Solving

Above all, we need to be agile in our problem solving. Here is Professor Leonard's framework:

- Moral Reasoning – Define the overall goals, core values, and priorities you're trying to advance. Assign someone to ensure these three elements guide your decision making.
- Description – You next want to understand key elements of the situation(s). Let the subject matter experts explain the details of the key critical issues, as each member will not have time to study them.
- Creative – Go over multiple options of the issue(s). Let all voices be heard.
- Analytical – In a rapid manner, predict outcomes of each option and define simple, key metrics to measure whether your solutions are achieving your goal(s).
- Executive – Choose the action that seems best. Know that not every decision is going to be right, as you are in experimental mode. You will need to keep adjusting.
- Administrative – Track your metrics as you execute.
- Repeat – Repeat the steps from Description to Administrative as issues arise.

Another way to look at this is via the OODA loop: Observe, Orient, Decide, Act. Move fast, knowing that not every decision will be right. Think of the decisions as tentative, and keep adjusting according to your results and new data. As you proceed, remember to make sure your core values drive your decision making. Also, ensure that you are facilitating deliberations, creating diversity, promoting psychological safety, and making joint inquiry (not advocacy).

5. Closing Comments

Keep faith in the process you create — this is your certainty. Keep iterating as you learn while you move along this journey. Expect not to know the right answers, but to find them through trial and learning.

Resiliency is required, and cautious optimism is needed. We are still in the early days of the crisis. New ideas, new ways of working, new intelligence, and new business models will be achieved. Going forward, new issues will arise and important priorities will be in conflict. Keep reworking the problem, and think of mental and physical sustainability — this is going to be a marathon. Placing confidence in your process will be critical to take you, and those that rely on your decision making, through these uncertain times. Follow the Stockdale Paradox:

- One needs to be brutally honest.
- One needs to provide a rational basis for hope.

We are entering a new norm, and we do not know how long it will last. The best any of us can do is focus on building a new sustainable business model, adapting as we learn the results of our inquiries and experiments.

Harvard Professors

Herman B. "Dutch" Leonard is *George F. Baker Jr.* Professor of Public Management at the Kennedy School, as well as *Eliot I. Snider and Family* Professor of Business Administration and co-chair of the Social Enterprise Initiative at Harvard Business School. He teaches leadership, organizational strategy, crisis management, and financial management. His current research concentrates on crisis management, corporate social responsibility, and performance management.

Robert S. Kaplan, Senior Fellow and *Marvin Bower* Professor of Leadership Development, Emeritus at the Harvard Business School, is co-developer of both activity-based costing (ABC) and the Balanced Scorecard (BSC). Kaplan joined the HBS faculty in 1984 after spending 16 years on the faculty of the business school at Carnegie-Mellon University, where he served as Dean from 1977 to 1983.

Webinar link

https://www.alumni.hbs.edu/video.aspx?v=1_ez23c9kx

Author

Joe Noreña is currently an industry advisor with Armstrong Wolfe, a board advisor to a healthcare AI start-up, a practicing executive coach, and an investor in start-ups. Joe is also a mentor with BUILD, an entrepreneurial program for high school students. He has been a Managing Director for over 20 years with major financial institutions in New York, London, and Frankfurt as global head of digital businesses, global and regional Chief Operating Officer, and global and regional FX trading head. He was also partner and president of a start-up global macro hedge fund and worked at Bridgewater Associates.