

BUSINESS RESILIENCE IN TIMES OF CRISIS

A STRATEGIC INTEGRATED APPROACH

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Introduction

If you are considering how to manage a crisis and steer your business through a significant event as the crisis unfolds, without any prior planning or preparation, then you are probably already facing a difficult time or potentially failure. The Confederation of British Industry (CBI) together with the Business Continuity Institute (BCI) have calculated that for every business facing a crisis or incident without appropriate preparation and planning then **1 in 5** go out of business within a year.

To ensure a holistic approach to business resilience, there are a number of aspects that you will need to consider to ensure your business remains competitive:

1 Leadership

2 Preparation

3 Information

4 Analysis

5 Decision-making

6 Review

If these key areas have not been considered, developed, resourced and practiced then how can you expect to react with appropriate alacrity when the crisis/ incident/ business interruption hits - in whatever form that may be.

The cycle on the right demonstrates that you can not just expect to deal with an incident or crisis as they occur by “seat of the pants” management, you need to invest in a strategy and more importantly resource it.

Of course, ultimately your actions will be a balance of risk, probability and cost. Resilience comes at a cost and if you increase your cost base disproportionately then you start to become uncompetitive in your sector under normal circumstances.



Understanding Resilience and Competitive Advantage

There is no point planning to survive any crisis if you can't stay in business under normal circumstances. As with most things in life it's a balance. Michael Porter developed the key business model (**5 Forces**) to show the dynamic forces that affect businesses in the market. Given many of these forces are external, over which you have little or no control, then it is worth considering the role resilience can play in competitive advantage.

Porter argued there are only a number of ways to sustain competitive advantage in this caldron of forces:

COST LEADERSHIP- producing your product or service at a lower price than your competitors. Clearly any addition to your cost base will potentially undermine this strategy. A strategy used by China, for example.

DIFFERENTIATION - Unique or added value product or service. For example, in a homogeneous market could be achieved by speed of delivery. Typically differentiation is achieved with innovation, quality or customer service. A clear reliance strategy is absolutely compatible and supportive of a differentiation strategy.

FOCUS - In a Focus strategy there is complete understanding of the target market to the extent you understand it better than anyone else. This is often a niche that larger companies don't or won't serve. The target audience enjoys the personal touch and are willing to pay a little more as a result. The understanding of how you provide resilience to your customers' supply chain is critical here as the narrow approach will magnify any vulnerabilities.

What is clear, regardless of the strategy your business is following, is that your resilience strategy needs to be cost effective, relatively simple and part of **“business as usual”**, so it becomes intuitive.

There is little point investing in systems you only use in a crisis where key staff face skill fade and inability to operate effectively.

The cost of resilience, particularly in a cost leadership business, has to be balanced against competitiveness. That said, resilience can be a selling point, particularly in a differentiated or focused business. Nobody wants to do business with a “fly by night” company and due diligence will seek to reward companies that are resilient.

A crisis or incident, particularly affecting the whole sector, can also provide opportunity.

Those who respond best will come out the other side in a much stronger position. Take the example of Cantor Fitzgerald, one of the World’s most aggressive and leading bond trading companies.



When hijacked aircraft hit the twin towers of the World Trade Centre on 11 Sept 2001, Cantor Fitzgerald lost everyone in its offices on the 101 to 105 floors in the North Tower (658 staff). This was 66% of its staff worldwide and a quarter of all casualties in New York that day. How could any company survive this? Its owners did consider closing the business that night. However, as family run businesses, they felt an obligation to the bereaved families.

Two elements enabled them to not only survive, but thrive. Firstly, although smaller, the London office had the plans and systems in place to enable them to immediately operate on New York's behalf, but probably the most significant aspect was they put people first. Quite remarkable for a hard nose brokerage firm. They announced that if they survived they would dedicate 25% of their profits over 5 years to the families of their dead colleagues to ensure medical bills and college tuition fees could be met for the next 10 years. They request the remaining staff to work harder and longer hours - not for profit or personal gain but for the families of their colleagues, this was a huge motivational factor.

This strategy also touched their customers who placed a significantly higher percentage of business with them. As the CEO, Howard Lutnick, said “they were killed with kindness” On the 19 Sept 2011 with only a third of it experienced staff they had the best trading day in their history and in 2006 the company completed its promise paying \$180 million dollars to the families and an additional \$17 million to 9/11 relief funds. The Company's story of resilience was the subject of Tom Barbash’s book “ On Top of the World: Cantor Fitzgerald, Howard Lutnick” .

Whilst putting people first was probably the key factor, this would not have been possible without the planning to provide the London office with the information and systems to step in whilst the tragedy was still unfolding. Cantor Fitzgerald not only survived, but are back at the top as one of only 22 companies authorised to trade US Govt securities with the Federal Reserve Bank. Peter Cheese, the Chief Executive of Institute of Personnel and Development confirms **“Businesses are more than ever being judged on how the treat employees and look after them”**.

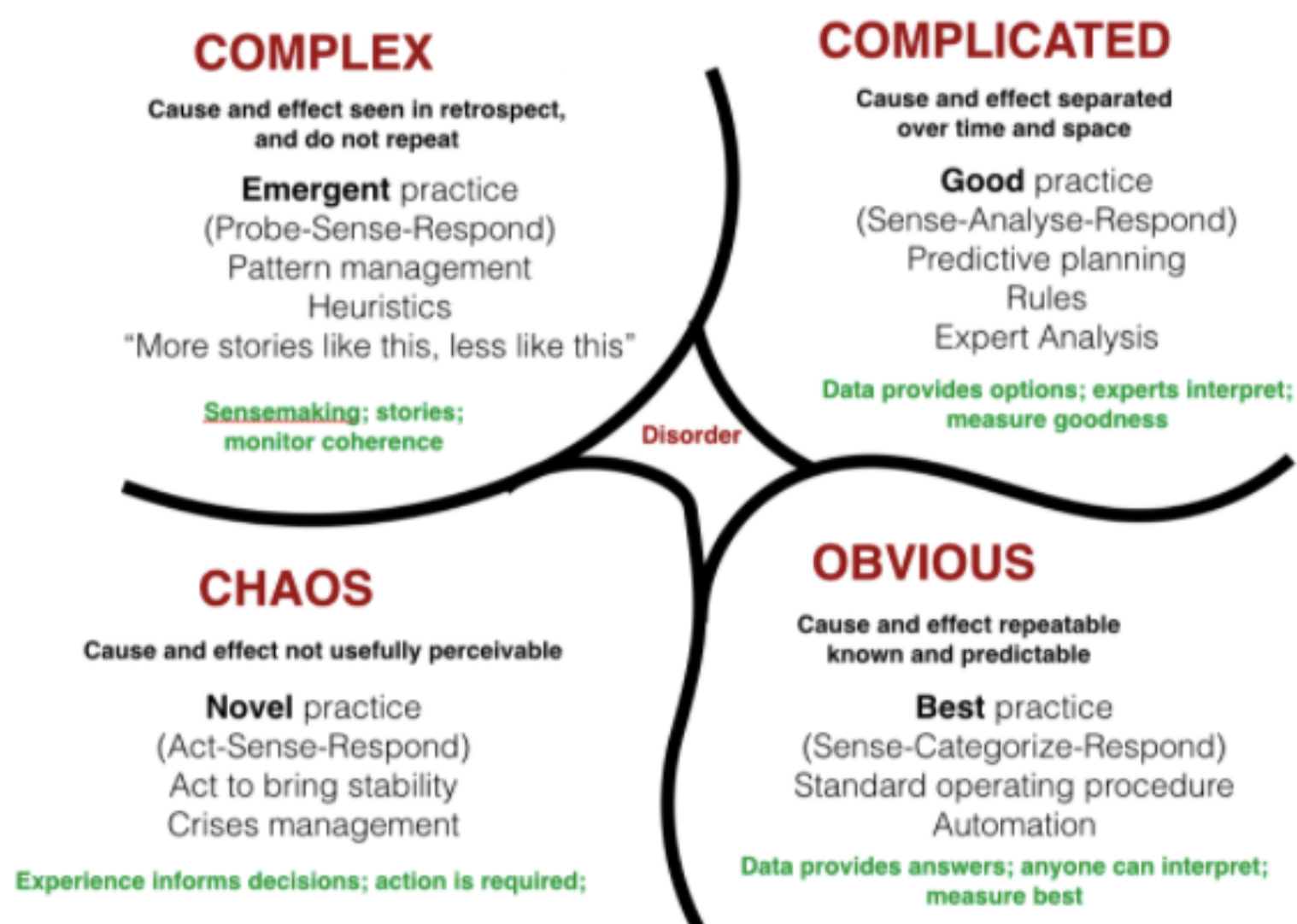
I think we have clearly demonstrated that a resilience strategy is not only essential for survival in a crisis, but should be part of your competitive advantage, planning to withstand the vagaries of the forces Porter articulated.

The key question is how!

The sections below provide details about all the aspects that should be considered by businesses in times of crisis in order to not only survive, but thrive.

Leadership

One of the main failings of many businesses across a myriad of different sectors is to assume because you have a good management team they can respond appropriately to a crisis. A quick look at the Cynefin Framework developed by Professor Dave Snowden can help to explain this dichotomy.



Many businesses operate in an **ordered world** where problems, despite being difficult, are "obvious", "complicated" or even "complex". However, these are responded to in a clearly understood approach. For example, where your environment is "obvious" you would sense the issue, place in predetermined categories and respond. The response is often established best practice. There is usually only one correct answer.

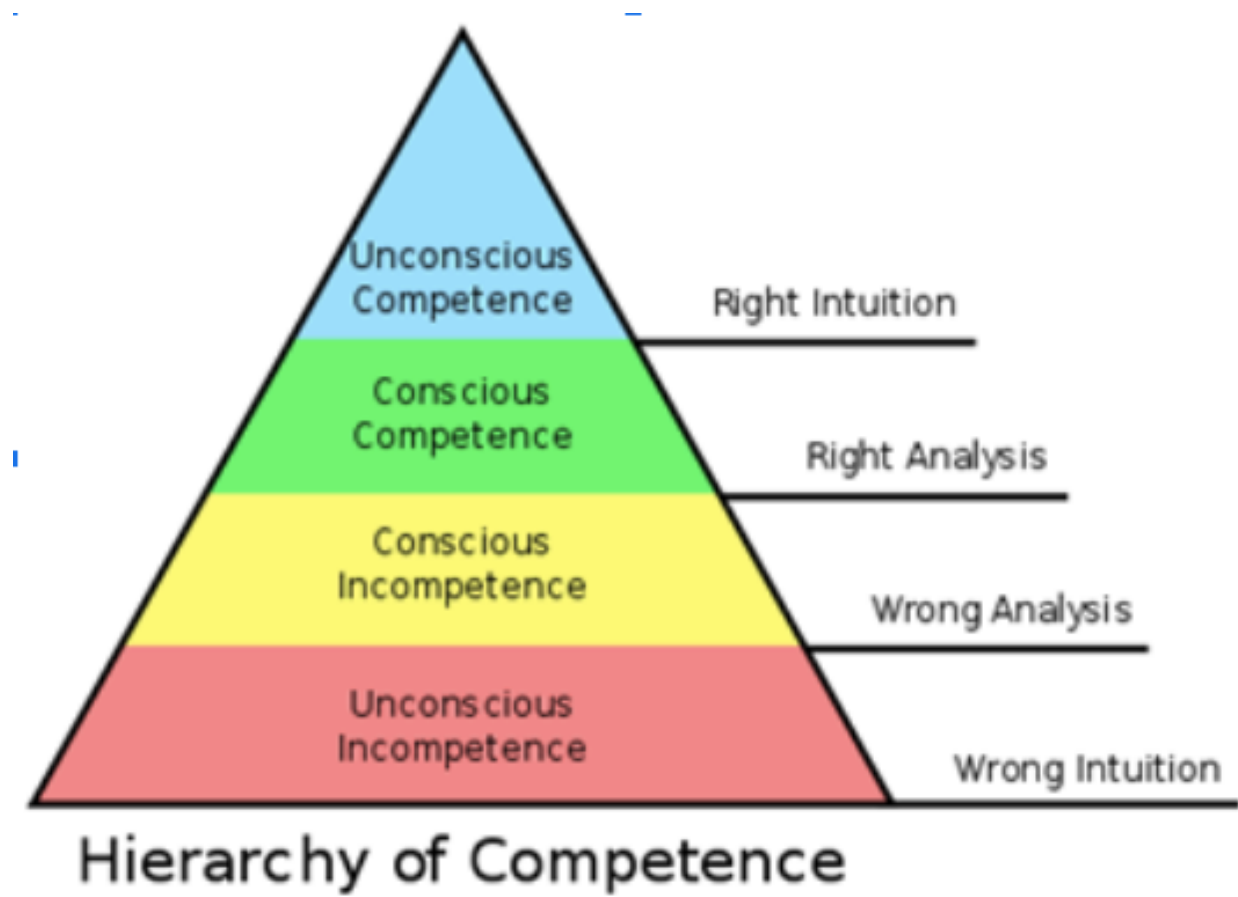
This does not under-estimate these problems; it is just that they are dealt with in a mechanistic approach of standard operating procedures and established processes. (prior to 9/11 Cantor Fitzgerald would primarily operate in this zone). Where the problem is more "complicated" there may be a number of correct answers. Here you would need to sense the problem, analyse and respond. There is still a clear cause and effect relationship - although as it is complicated not everyone may see this clearly.

The analysis is often conducted by experts to decide the best response to the situation. Business Leaders who operate in these worlds will find difficulty operating in the chaotic realm of incident management. This does not make them bad leaders overnight; they are just unprepared for the paradigm shift they will face. In "chaotic" situations, no relationship between cause and effect exists so your primary goal is to establish order. This is the realm of crisis and emergency management. The decision making approach here is to act then sense how that has impacted the situation and respond. One needs to act decisively to address the most pressing issues, sense where there is stability and respond to move the situation from chaos to complexity. Reliable information is critical in uncertain and chaotic situations.

An example of this was noted at a well known University during an Incident Management Training Exercise we conducted. The Director of Finance (normally operating in an ordered world) had been nominated as the Silver Commander for the exercise. At the start of the exercise the problem and many contingencies were analysed in detail with a result it took 90 minutes to make the first decision. At which point the exercise was halted for a learning point and he was then asked what do you anticipate has happened in the 90 minutes it took you to make the first decision and act - do you at this point have any control or understanding of events.

What this clearly demonstrates is that your leaders for a crisis need to be selected on relevant experience and trained accordingly to react with the necessary speed to a rapidly developing situation. How can you expect a talented individual who operates day to day in an ordered domain to have the appropriate experience to lead you through a major incident? Using Burch's competency model below. You can see at the start of that exercise the Finance Director was unconsciously incompetent, but there had been progression as he had moved to being consciously incompetent (aware of his own shortcomings), which removes arrogance and preconceived ability to enable the appropriate training to move us up the pyramid.

Isn't it better this is achieved through exercise and training rather than discovering your leaders “achilles heel” in the middle of a real incident. Where we need our leaders to be is in the blue zone, but this only comes with extensive experience and practice. In “Black Box Thinking” Matthew Sayed argues to become World class at any skill takes 10,000 hrs of practice. So why do we expect our leadership team to be naturally good at this?



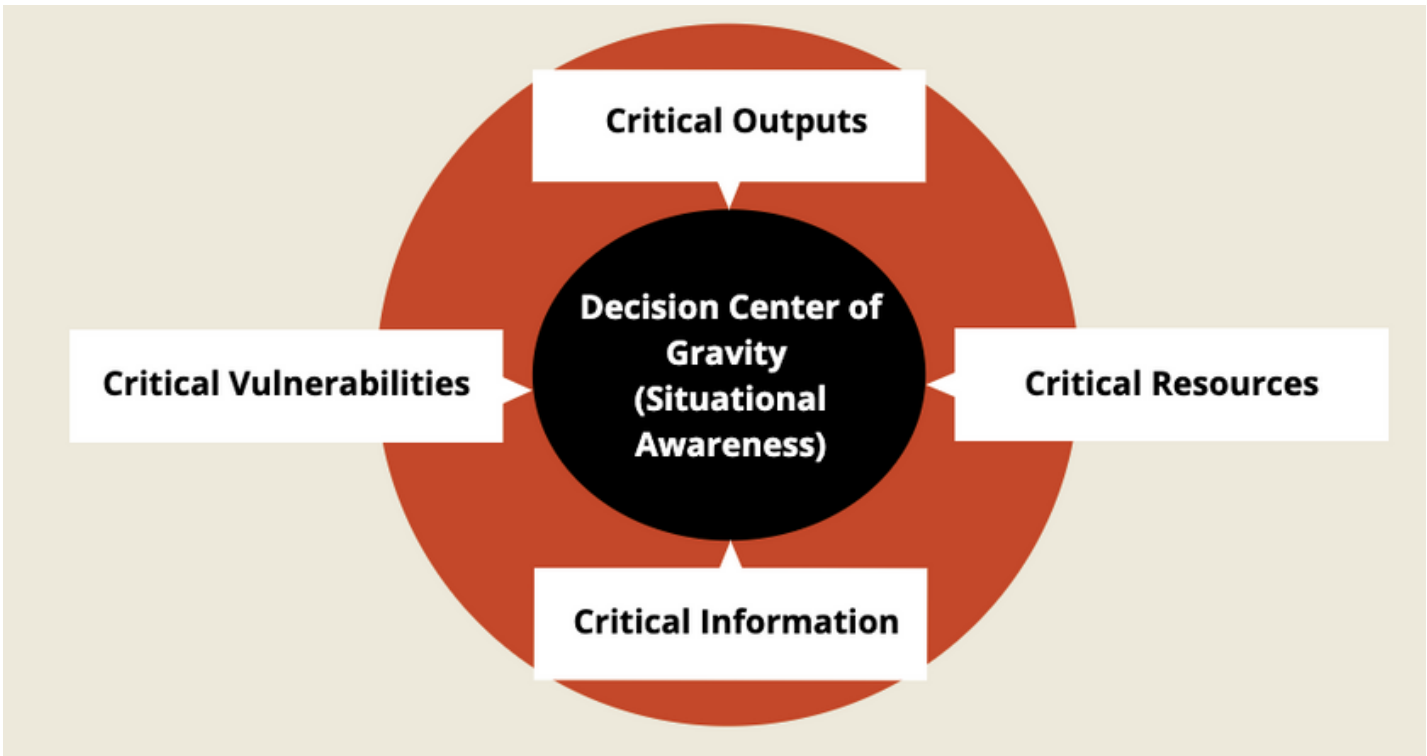
2 Preparation

How many times have we heard that prior preparation is the key to success or at least prevents poor performance, this holds particularly true for critical events or a crisis. Clearly we can not always anticipate the nature of the crisis or incident, but we can ensure we understand how it may impact on our business.

Whilst tactically business continuity as articulated by ISO 22301 can assist a business, strategically there is a need to adopt a broader business resilience approach. An innovative methodology to this is adopting “Reverse Military Planning” or a self-centred approach. In planning for a conflict the old adage from Sun Tzu “know your enemy like yourself and in a hundred battles you will be successful” stands the test of time, which is why Dr Joe Strange from the US Marine Corp University, Quantico, Virginia developed the critical thinking in relation to Centre of Gravity Analysis.

This seeks to define an enemy's “Centre of Gravity” or main point of strength. This analysis seeks to establish its critical vulnerabilities, critical capabilities, critical resources and critical information that support the Centre of Gravity. Thus enabling you to identify its source of power and areas of potential weakness. If in the modern corporate world business continuity plans are your tactics in relation to a critical event, then this analysis if reversed and aimed at looking inwards, becomes your strategic analysis across the whole business. This type of analysis is crucial to success in a crisis or ultimately - even survival.

Sun Tzu again reminds us that “strategy without tactics is the slowest route to victory, but tactics without strategy is the noise before defeat” . Understanding your own “Centre of Gravity” and its supporting elements critical vulnerabilities, critical capabilities, critical resource and critical information allows you to understand your priorities that need to be maintained in a crisis.



In terms of the Cynefin Framework discussed earlier this gives the template to move from the chaotic to the complex, but manageable sector. It is vitally important we understand the vulnerabilities of our business because regardless how competent we might feel we are as leaders in our own field , the World consistently demonstrates the ability to throw completely random problems at us out of left field.

Moreover, there is a danger that our unconscious bias formed by the experiences of our past, can impact on our decision making without a strategic framework. As Anis Nin reminds us “we don’t see things the way they are but as we are”.It is from this strategic overview you can start to understand risk/probability and impact in a more meaningful way, developing a comprehensive Business Impact Analysis and appropriate strategic mitigation on crisis plans.

3 Information

Timely information is the key to successful decision making. Without it your decisions are at best guesswork or hunches. However, it is important that decision makers are not overwhelmed by the volume of information being received, in simple terms information must be targeted, accurate and timely. Often events are rapidly moving and decisions are consequently time sensitive. Having the full picture or as the military would term it - situational awareness - is essential.

Let's take the Battle of Britain in summer and autumn of 1940 as an example. Remembering Churchill's immortal words "Never in the field of human conflict was so much owed by so many to so few" makes us think it was the young spitfire and hurricane pilots that won that battle. The truth is far more complex and this was in fact a win for information supremacy. Chain Home radar developed in the late 1930s gave Fighter Command the ability to see the Luftwaffe building up its formations over France.

Clearly a tremendous advantage to know where and when your enemy is about to attack with sufficient warning to interdict it, but in reality that is only half of the effective equation. The Operations Room at Bentley Priory had developed an accurate reporting tool from every Fighter Command Station that provided simple but key information on aircraft status and aircrew availability. So in effect the Operation Room not only had situational awareness of the enemy but situational awareness of its own resources in a timely and accurate manner allowing them to take advantage of their information supremacy.

This was calculated as giving the RAF a relative 3 to 1 advantage over the Luftwaffe through centralised control, but decentralised execution. So the lessons from the Battle of Britain are; provision of targeted information in as simple a format as possible in a timely manner.

However, the information should not only relate to the problem or incident you face, but also the information on the critical internal resources required to respond to the incident or crisis. Move forward to 2020 and an article by Splunks identifies the inability to manage and use information as one of the major failings of the COVID19 crisis both at an individual firm level and at Government level. This has not only highlighted the importance of data for decision making; also that "having data is one thing being able to interpret it and make decisions is quite another"

4 Analysis

To provide appropriate situational awareness there is a need to synthesize the information received in order to contextualise it. In other words moving from observation to orientation in John Boyde's OODA Loop (something we will discuss in more depth in the next section). Clearly, it is vital that staff involved in this analysis are trained and selected for this role as discussed in the leadership section. This may appear nugatory investment during business as usual, but this training investment will reap significant benefits in accurate, agile contextual decision making during a crisis.

Information provided also needs to be relevant to the appropriate decision making levels. For example at the initial response level the information will be related to the nature of the disruption and how to resolve or mitigate the problem in the immediate to short term. However, at the Chief Operating Officer level this become more sophisticated and aimed at maintaining the business over the longer term. Not only will they want to know how the event is being managed (response management), but they will also want to know:

- How is output being affected short term/long term?
- What is the financial impact short term/long term?
- What is the impact on customers?
- What is the impact on staff?
- Has the event affected competitors?
- Has the event and subsequent management had any reputational impact?
- Has the event resulted in change to legislation or Govt advice?

However, even with the right methodology in place there are a number of inhibitors to situational awareness:

- **Failure to monitor the baseline** - this is not understanding what the normal operation environment looks like and therefore having no indicators and warnings in place to observe significant change early.
- **Focus Lock** - You become so focused on a detailed tactical task you fail to see the more significant change to the bigger picture.
- **Normalcy bias** - the change is so outside of your normal parameters you don't believe what you are actually seeing

Information driven leadership requires faith in the information and the processes and systems to be able to act upon it. Often companies and individuals are subject to normalcy bias and don't believe what the information (situational awareness) is telling them. They simply revert to normal ways of doing business as it is comfortable. This mind set has to change in order to build business resilience.

5 Decision-making

In a crisis the key element in decision making is **speed**. In the world of Emergency Management you will be judged and your ultimate success determined by what actions you take in the first **30** minutes. A read of the review of the Grenville Tower tragedy will quickly confirm this. We referred earlier to John Boyd's OODA Loop (Observe, Orientate, Decide, Act). The diagram below outlines the concept of the OODA Loop.



The idea of a 'loop,' emphasises the importance of repeating the OODA cycle indefinitely. The OODA was developed to assist fighter pilots in air to air combat. It had been observed that it was rarely the most competent airman that won the engagement, but the individual who could navigate the OODA loop the fastest. As a result, the methodology was developed to train for rapid, accurate decision making under pressure or as Sir Clive Woodward the England World Cup winning rugby coach termed it T-Cup (thinking correctly under pressure).

We see this characteristic in sportsmen and women who transcend their peers as the top level. The comment most frequently made is that they appear to have more time and space than other players. Take the final moments of the famous 1966 World Cup Final. Bobby Moore challenges for the ball on the edge of England's penalty area as the Germans were desperately pressing for an equaliser. Moore wins the ball and the crowd and his team-mates are screaming for him to kick it out of play.

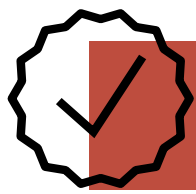
However, with his analytical vision he notices Geoff Hurst making a run 50 metres down field (Observe), he sees the opportunity for a quick counter attack (Orientate) and rather than kill the ball seeks to play it down field (Decision) and with pinpoint accuracy delivers a ball to the feet of Hurst in the open to finish the game 4-2 (Act). The OODA Loop is clearly a transferable methodology and it is this ability to navigate the whole OODA loop at speed that puts you ahead of the competition or the crisis at hand.

6 Review

Coming back to the Cynefin Framework, it is now possible to see that by navigating the OODA loop at speed you can use the Act, Sense, Respond context for the chaotic sector to make quick decisions and test and adjust. If only the Financial Director at that well known University understood this.

In terms of review this is not only essential during the course of events as you navigate the OODA Loop, but post event to to review what went well and what could be improved (post event analysis). What was once termed lessons learnt by the military are initially termed lessons identified until the post event actions turn them into lessons learnt.

How many times have we seen a comprehensive post event review that identifies a number of shortfalls , but remains gathering dust on the shelf as normal business takes precedence.



Summary

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