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Risk Practice

Responding to coronavirus: The minimum viable nerve center

Amid the coronavirus pandemic, companies need a crisis response coordinated by top management that gives experts and managers the autonomy to implement creative, pragmatic solutions.

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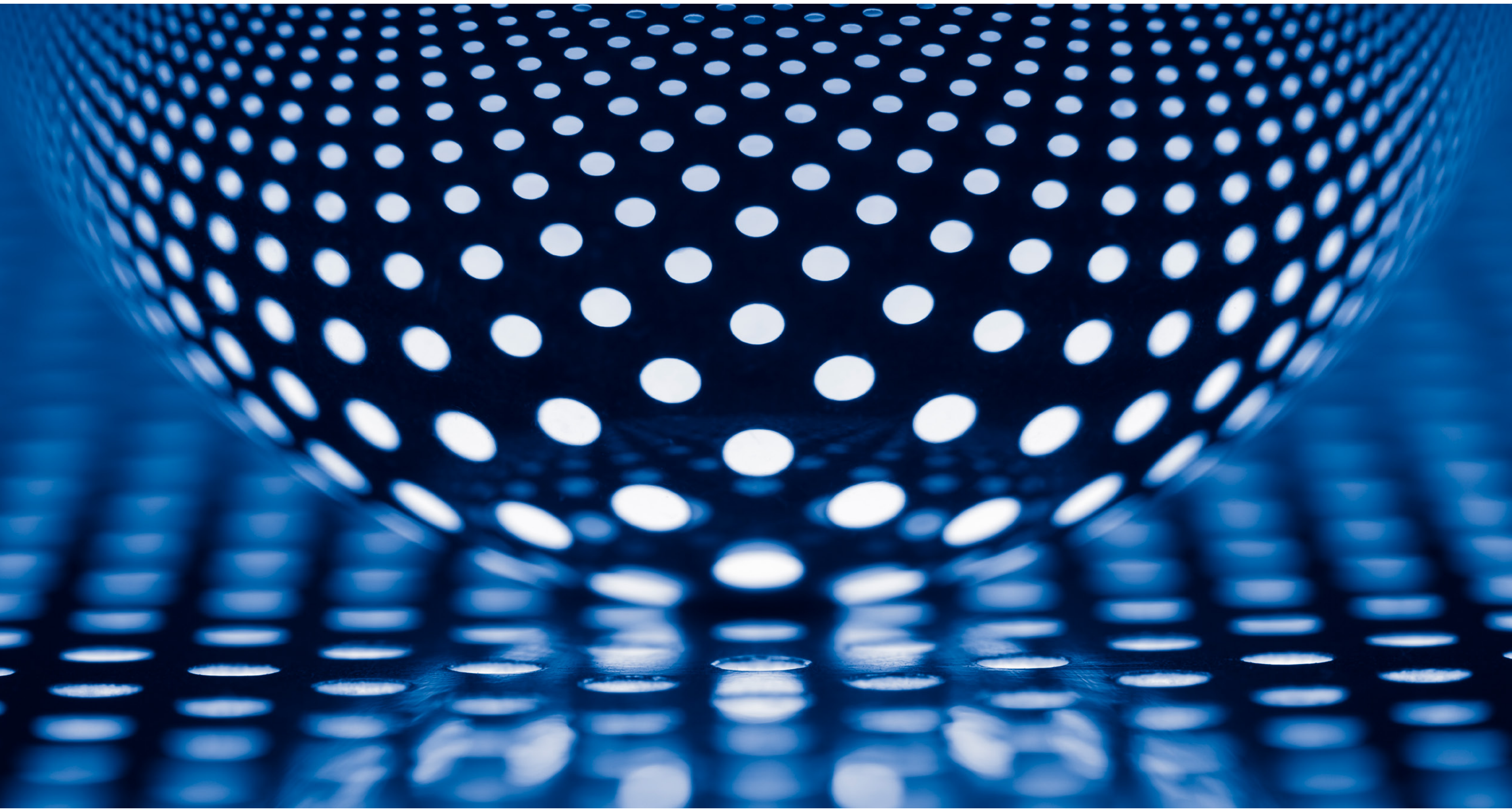

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The COVID-19 outbreak, caused by the coronavirus (SARS-CoV-2), is a deep humanitarian crisis that has also gravely affected the global economy. It is posing difficult—even unprecedented—challenges for business leaders. They are finding that the fast-moving situation is impervious to familiar remedial actions. By the time a response is mounted, the situation has changed, and the scale, speed, and impact of issues have unexpectedly intensified. Leaders everywhere have experienced some form of such disruption, though the magnitude of the present crisis is trying the lessons of human experience. The struggle to avoid ineffective, reactive approaches has consequently been all the more difficult.

Together with many leading companies, we have developed a better approach—a flexible structure for guiding the work—called the integrated nerve center. In an unfamiliar crisis, such as the COVID-19 outbreak, the nerve center concentrates crucial leadership skills and organizational capabilities and gives leaders the best chance of getting ahead of events rather than reacting to them.

The integrated nerve center is not a formulaic panacea. It is, rather, an efficient means of coordinating an organization's active response to a major crisis. It is endowed with enterprise-wide authority and enables leaders and experts to test approaches quickly, preserve and deepen the most effective solutions, and move on ahead of the changing environment. In hundreds of discussions conducted in the past few weeks, we have looked at the efforts of many companies now in the process of building COVID-19 nerve centers. We feel that the insights of this common experience are of wide and pressing importance.

Discover, decide, design, deliver: Lessons from past crises

Common crisis-management failures arise according to the demands of the crisis, which can be understood in a fourfold manner. The first task of crisis management is to discover the current situation and form an accurate view of how it might evolve, deriving implications for the organization. From discovery, leaders must move on to decide on and design the necessary immediate and strategic actions, speedily establishing a pragmatic, flexible operating model. This model is ideally based on adequate stress testing of contextualized hypotheses and scenarios. It should also adhere to company and societal values. Finally, companies must deliver the solutions in a disciplined and efficient way, with enough built-in flexibility to accommodate late pivotal changes. In real crises, things go awry in each of these four categories:

— *Inadequate discovery.* This is a failure to invest in an accurate, full determination of

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the depth, extent, and velocity of the crisis. Companies typically reflect an optimist bias in initial assessments, for example, and then in subsequent reassessments as well. Eventually the false hopes embodied in these inaccurate assessments become obviously insupportable, at which point, however, the crisis has worsened, and much valuable time and resources have been wasted.

- *Poor decision making.* Most poorly handled crises are defined by poor decision making. Bad decisions can result from many causes, such as acting on incomplete information (action bias). In our experience, reluctance to act until "all the facts are in" is a more common fallacy. The tendency for decision makers to analogize a new and unfamiliar situation to past experience (pattern recognition) is another serious pitfall. Groupthink and political pressure commonly lead decision makers astray. Reputations—and sometimes, compensatory incentives—are often at stake in large, expensive projects. Consequently, undue pressure can be exerted to push through an unforeseen problem whose resolution is disregarded or seen as insufficiently important to revise timelines and budgets. Relatively minor arising technical issues can, by this dynamic, become major problems and even lead to catastrophic failures.

- *Constrained solution design.* Many crises have one or more technical causes—the problem in itself—that must be addressed with tailored solutions. These solutions must be either newly invented or imported to a new domain. Responding organizations must not allow themselves to be constrained by poor or inadequate solution designs. The immediate technical solution for diagnosing COVID-19—the starting point for treatment solutions—is the effective test. A type of test known as polymerase-chain-reaction (PCR) testing, developed in China, Europe, and South Korea for the disease, has become the standard for effective testing and is now being produced at scale around the world. The test was first produced in Germany in January 2020, not long after COVID-19 appeared in China. Yet in the United States, the presence of an ineffective test delayed the adoption of the effective one for a crucial early period in the spread of the virus.

- *Delivery failure.* For anyone with actual experience in handling a crisis, execution failure is a constant risk. Small contingent (random) failures can cause larger failures of the most well-thought-out plans. Faulty solutions can command undue loyalty from managers suffering from "operations addiction": instead of recognizing the root problem, responsible parties look for patches to preserve the flawed response. Chaotic conditions will necessarily cause disruptions, but the presence of accountable leaders with good judgment and the freedom to act and improvise as needed can minimize execution delays and failures.

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The COVID-19-response structure

The nerve center is designed to resolve these four challenges under the heavy pressures of a major crisis. Certainly, companies and institutions are facing such a crisis with the COVID-19 outbreak, which has triggered travel restrictions, border closings, supply-chain disruptions, and work stoppages across the globe. The exhibit shows one example of a COVID-19-response structure.

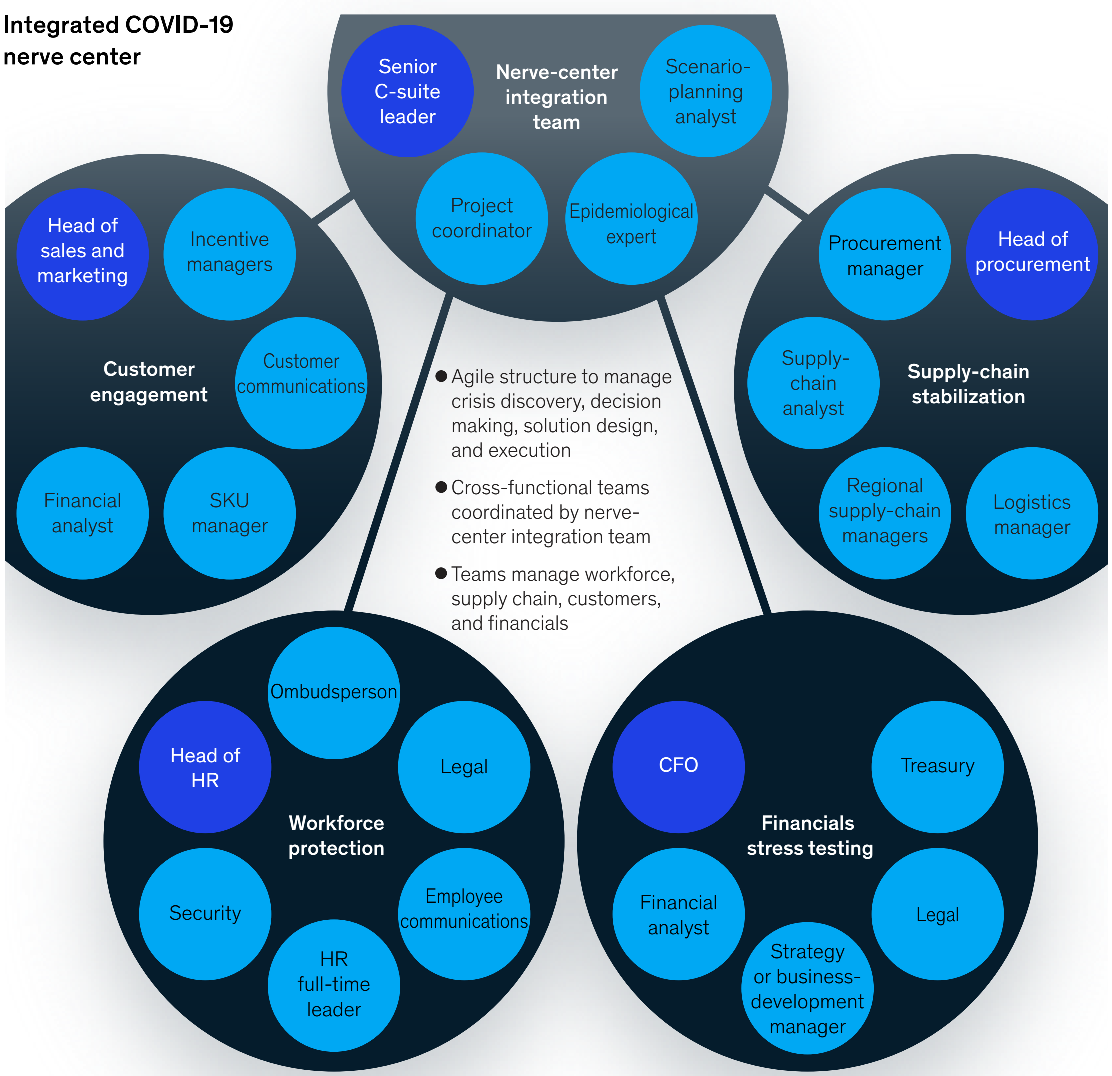
In this example, the nerve-center structure is organized around five teams, each responsible for a number of work streams. It is designed as an agile structure, coordinated through an integration team, but there is enough autonomy of action granted to constituent team leaders to work through bottlenecks and keep the response moving.

Nerve-center integration team

The nerve-center integration team is the coordinating head of the larger nerve-center structure. Its purpose is to set the overall tone of the COVID-19-response work, acting as a single source of truth, in real time, for all information and

Exhibit

The integrated COVID-19 nerve center is based on five cross-functional teams.



actions related to the outbreak and response. It must maintain close two-way communication with all teams. It is headed by a senior C-suite leader and includes an epidemiological expert, a project coordinator, and a scenario-planning analyst. The organization should empower this team to command whatever resources it deems are necessary to integrate closely and accomplish the work of the other four teams. The team's responsibilities can be summarized as follows:

— acting as the single source of truth for issue resolution

— ensuring that sufficient resources are deployed where and when needed

— coordinating the portfolio of remedial actions across the work streams of all teams, based on scenarios and triggers

— aligning team leaders on scenarios, with the help of roundtables and other exercises as needed

Workforce protection

For most organizations, business as usual cannot be expected to reign during the COVID-19 outbreak. Organizations need to develop a plan to support employees that is consistent with conservative health and safety guidelines. The plan must be flexible enough to accommodate policy changes as needed through the outbreak. It is useful for companies to compare their efforts in this domain with the actions that other organizations of similar size are taking, to determine the right policies and levels of support for their people.

The most helpful workforce-protection models provide clear, simple language to local managers on how to deal with COVID-19 that is consistent with the guidelines provided by WHO, national health organizations (such as the US Centers for Disease Control and Prevention), and local health agencies. The model should provide managers with a degree of autonomy sufficient to allow them to deal with any quickly evolving situation. Free two-way communication is also important so that managers can monitor adherence to policies as they evolve and employees can safely express their reservations about personal safety, as well as any other concerns.

The recommended workforce-protection team includes the head of HR (team leader); the HR full-time leader; representatives from security, legal, and employee communications; and the ombudsperson. The workforce-protection team is charged with the following work streams:

— developing brief policy papers, issue-escalation criteria and call trees, and actions (including preventative actions), as needed

— managing multichannel communications, including confidential feedback and reporting channels

— aligning policies and incentives for third-party and real-estate contractors

— establishing or maintaining communications platforms to enable employees to work from home (necessary infrastructure includes a virtual private network, telephony, and broadband readiness), including, as appropriate, deployment of collaborative software tools to enable video and audio conferencing, screen sharing, "whiteboarding," polling, chat, and other interactive capabilities

— helping manage productivity, using such means as staggered work times; respecting social-distancing norms; and instituting health checks

— developing "issue maps" and clear ownership and deadlines for issue resolution

— engaging with local, state, and national political leaders and health officials

Supply-chain stabilization

Companies need to define the extent and likely duration of their supply-chain (including tier-one, -two, and -three suppliers) exposure to areas that are experiencing community transmission and their inventory levels. Most companies are now primarily focused on immediate stabilization, given that, in China (where few new COVID-19 cases are being reported), most plants are now restarting. In addition to supporting supplier restarts, companies should explore bridging strategies, including supply rationing, prebooking logistics capacity (shipping, rail, and airfreight), using after-sales stock, and gaining higher-priority status from suppliers. Companies should plan to manage supply for products that may be subject to unusual spikes in demand as they come back on line. In some cases, longer-term stabilization strategies may be necessary. Here, companies will have to use updated demand planning, optimize their networks further, and identify new suppliers. These approaches may be generally warranted to ensure enduring supply-chain resilience against risks beyond COVID-19, once the crisis is over.

The supply-chain-stabilization team will include the head of procurement (team leader), the procurement manager, a supply-chain analyst, the regional supply-chain managers, and the logistics manager. This team will manage four work streams:

— ensuring risk transparency across tier-one, -two, and -three suppliers; supporting supplier restarts; managing orders; and ensuring the qualifications of new suppliers

— managing ports, prebooking logistics capacity, and optimizing routes

— identifying critical parts, rationing parts as needed, and optimizing locations

— developing scenario-based sales and operations planning for SKU-level demand and managing the planning for production and sourcing

Customer engagement

Companies that truly navigate through disruptions often succeed because they invest in their core customer segments and anticipate those segments' needs and actions. In China today, for example, while consumer demand is down, it has not disappeared—far from it. People have dramatically shifted toward online shopping and ordering for all types of goods, including for food and produce delivery. Companies should invest more in online channels as part of their push for multichannel distribution. The investment should include ensuring the quality and delivery of goods sold online. Keep in mind, too, that changing customer preferences may not return to preoutbreak norms.

The customer-engagement team will include the head of sales and marketing (team leader), a financial analyst, and managers for customer communications, customer incentives, and SKUs. The customer-engagement team will manage three work streams:

— communicating to B2B customers (through a dedicated site) and developing scenario-based risk communications

— intervening as needed across the customer journey to prevent leakage, training customer-facing employees, and monitoring customer-service execution

— developing customer communications about COVID-19 situations and practices, as well as fact-based reports on COVID-19-related issues

Financials stress testing

Companies need to develop business scenarios tailored to their own contexts. Experts using analytics can define the values for the critical variables that will affect revenue and cost. Companies should model their financials (cash flow, profit and loss, and balance sheet) in each scenario and identify triggers that might significantly impair liquidity. For each trigger in each scenario, companies should define moves to stabilize the organization. Such moves could include optimizing accounts payable and receivable, cost-reduction measures, and divestment or M&A actions.

The financials-stress-testing team will include the CFO (team leader), the leader of strategy or business development, the leader of treasury, a representative from legal, and one or more financial analysts. The team will manage two work streams:

— developing relevant scenarios based on the latest epidemiological and economic outlooks

— assembling relevant financials data according to different scenarios, especially working-capital requirements

Getting started quickly: The minimal viable nerve center

A common pitfall in nerve-center design is needless complexity. A good way of avoiding this is to aim at a minimal viable nerve center. Companies taking this approach quickly assemble the bare essentials needed to get operations up and running. The core nerve-center group, which might include all the team heads, will shape the structure, as needed, as the crisis evolves. Experience points to four essential elements that should be put in place right away.

Nerve-center organization

The teams need to be staffed quickly, with individual roles, responsibilities, and accountabilities made clear. Flexibility will be an important principle, since roles will change over time, sometimes quite rapidly. Also important is that nerve-center leaders be authorized to make timely decisions, sometimes without the opportunity to syndicate with other leaders.

Operating cadence

Meetings should be limited to those in which vital deliberations are conducted and actions decided on. They should, however, be frequent enough to foster collaboration. Ensure that meetings address essential topics and elicit the best thinking for the relevant work streams. The responsible members for each work stream should have the opportunity to seek input from the coordinating leaders. Solutions should be tested and decisions made to commit to effective methods and set aside ineffective ones. Select meeting attendees with care: Meetings of only senior leaders tend to encourage purely upward reporting rather than constructive debate and real problem solving. Meetings with too many frontline managers and individual contributors can become overly focused on tactical issues rather than the central problems. The difficulty of a high-quality operating cadence lies in maintaining a basic underlying structure and then allowing flexibility so that the organization can pivot when it needs to.

Issue identification

The nerve center will first identify the critical issues present in each work stream, with the expectation that these will evolve over time. Issues should be described in an issue map for risks and threats. In their totality, these maps will represent the core problem statement for the crisis situation and allow the group to articulate and address the challenges clearly and relatively quickly. The mapping can be divided between immediate, addressable risks and unforeseen, arising threats. Risk maps can be longer and more comprehensive; threat maps, however, can address the biggest issues—those that could drive significant disruption as the crisis continues.

Some known COVID-19 risks, such as those posed to traveling employees, could be readily addressed with policies (such as travel restrictions). Unforeseen threats that could arise as the crisis continues can be anticipated in “premortem” workshops. Nerve-center teams therein work out possible responses—ones to take if, for example, a sudden gap should open in the supply chain because of policies imposed beyond the company’s control.

Once companies establish a good understanding of the critical issues across all work streams, they will find it helpful to run financial calculations (balance sheet, cash flow, and profit and loss) on issues and responses. This will project scenarios for particular issues, allowing companies to form views on issue likelihood, timing, and magnitude.

Response plan

Leaders can find it extremely difficult to craft sensible goals during a crisis. Many trade-offs usually have to be made between ideal outcomes and the many real constraints the organization faces. Once more realistic goals reflecting the trade-offs are arrived at, they can be assigned a few milestones and key performance indicators (KPIs) so that progress toward them can be tracked in simple ways.

Additional elements

A few other elements can become helpful as the nerve center evolves. For the COVID-19 crisis, these could include common operating pictures, giving a single view on the current status of the response; KPI dashboards, to confirm whether or not hoped-for outcomes are being achieved; and listening posts, which are early-warning indicators that can point out forthcoming changes in the trajectory of a crisis.

The cultural challenge

The hard truth about effective business leadership is that leaders operate within powerful cultural and social contexts. The largest organizations, with hundreds of thousands of employees, might appear, in normal business conditions, to operate according to a command-and-control structure. The reality is more complex. While large organizations use many top-down, pyramid-like structures and processes, these work only when outcomes are predictable. On the other hand, routinized ways of working impede the creativity and flexibility that organizations need to respond at speed amid a crisis.

The exhibit of the integrated-nerve-center structure we have offered is not meant as a precise instruction manual. It is a general outline in need of contextual tailoring from organization to organization. The form described is most applicable to large corporations with global supply chains. For financial institutions, the structure would give little prominence to supply-chain stabilization and much more weight to financials stress testing. The structure is, however, adaptable for any large organization and can be effectively deployed in any crisis. From a business standpoint, the COVID-19 outbreak is a particular kind of crisis, quite different from those affecting a single large, multinational company. Rather, it is more like the financial crisis of 2008 to 2009, in that it presents as a shock to the greater part of all global economic activity: all the more reason that organizations need to concentrate leadership and capabilities in a fast-acting, integrated nerve center.

With senior-leadership support and participation, the nerve-center structure can provide the organizational parameters that companies need to navigate through the disruptions caused by the COVID-19 outbreak. The approach works because it enables a coordinated response led by top management while also giving experts and managers the autonomy they need to implement creative, pragmatic solutions.

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