

DYN 672: A Systems Approach to Crisis Preparation and Building Organizational Resilience:

Class #1: Course Overview, Crisis Alert, Resilience

Professor: Steven F. Freeman
Spring 2011; Wednesdays, 6:30- 9:30 pm

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Objectives

- Awareness of potential crises
- Understanding of crisis & response
- Develop expertise - Apply knowledge
- Think Critically - Learn how to learn

Assignments

- Class Participation
- Course Project - Topic Development

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General Educational Philosophy

| | |
|-----------------------------|---|
| • Useful assignments | Contemplate what's important |
| • Syllabus adaptation | Incorporate topics of current, class interest |
| • Collaborative learning: | Evaluate theory based on experience |
| • Reflection / Sense-making | Figure out what we've learnt as we go |

How I got into this field

- “Loss” in the American Auto Industry
- Study of the effect of the 9/11 attacks on Organizations hardest hit
- The amazing story of Sandler O’Neil
- Insights of Resilience

Evolution of DYN 672

- 2003** Crisis mgmt – a technical backwater + resilience, valuable, though limited, insight
- 2005** Katrina: Crisis becomes more real and (we see) terribly managed by authorities
- 2008**: Financial Crisis: Everyone could have / should have seen this, but ...
- 2011**: A plague of crises, increasingly already upon us ...

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What is an Organizational Crisis?

- Threatens a major product line, business unit
- Damage an organization's financial performance
- Harm the health and well being of consumers, employees, surrounding communities, or the environment
- Can destroy the public's trust in an organization, its reputation and image, or even its continued existence

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At least that's the
definition we
presently use

On the horizon...

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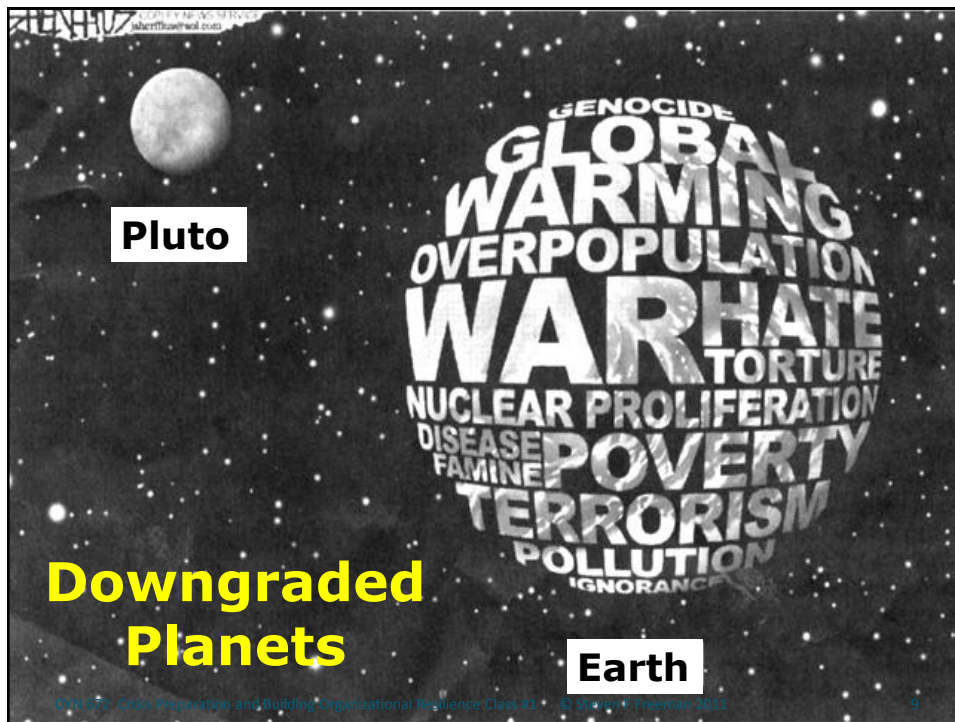
**Crises qualitatively and
quantitatively beyond anything
the world has ever seen**

Take a broad view of the world -- a
systems view -- and you'll see it racing,
accelerating even, toward precipitous cliffs...
Global Warming, Mass Extinction, Peak Oil,
Famine, Extreme Weather, etc...

The world as we know it will not last forty
years; it may not last four.

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Crisis Preparation:

2003: *Technical Checklists*

2011: *Today's Central Tasks*

Next: What's in your bookbag

In your bookbag: Eaarth

Our old familiar globe is melting, drying, acidifying, flooding, and burning in ways that no human has

ever seen....

We've created
a new planet
filled with new
binds and traps.



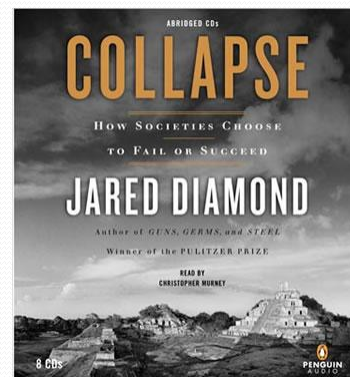
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In your bookbag: Collapse

All great empires come to an end,
usually within a century or two.

Many societies have
completely collapsed,
bringing down all its
members with them,
due to environmental
degradation



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Omnivore's Dilemma

Corn and Oil: A NATIONAL EATING DISORDER

Heavily-subsidized corporate agriculture

- sick corn- and antibiotic-fed carcasses fattened in their own manure
- patent-protected, monocultures
- vast planetary dead zones
- nutrition-less toxins for end consumers

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In your bookbag: The Big Short

**Govn't Controlled by Big Banks +
Regulatory Agencies Controlled
by Big Banks + "Too big to fail" +
big \$\$\$ incentives to NOT see
problems = financial meltdown
and massive taxpayer bailout.**

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**Survival in every sense will
depend on awareness,
understanding, preparation
and resilience ...**

Survival Simulation

The Survival Game: Lost at Sea

- Individual Performance: How to Think in a Crisis. What's critical?
- Group Performance: How to do use all the group knowledge to come up with a better decisions than any one individual could make?

Crear Vale La Pena

A severe crisis. Macro + micro

How can it pull through?

What does the org have going for it?

Traditional Crisis Management

- 1. Anticipate problem**
- 2. Develop a Plan**
- 3. Scenario Testing**

Next: Types of Crises

Types of Organizational Crises

- Criminal Attacks
- Economic Attacks
- Loss of Proprietary Information
- Industrial Disasters
- Natural Disasters
- Breaks in Equipment & Plants
- Legal
- Reputational/Perceptual
- Human Resources/Occupational
- Health
- Regulatory

**Which crises might affect your groups?
How would they play out?**

Phases of Crisis Management

- Signal Detection
- Probing
- Damage Containment
- Business Recovery
- Debriefing

Management Options in Preparing for Change and Crises

Contingency thinking: Anticipate problem and develop a plan for dealing with it

Organizational Resilience: developing general capabilities that avoid or mitigate the worst outcomes in almost any scenario, whether foreseen or not

Organizations are NOT Inherently Resilient

- Corporate success generally fleeting: High turnover in Fortune 500. Change more rapid than ever. Threats are everywhere.
- Organizations have difficulty adapting to:
 - Technological change (Tushman)
 - Social changes (Dutton)
 - New business conditions (Freeman 1999)
- Self-amplifying Feedback: Vicious Circle/Doom Loop

Schools Do Not Teach Resilience.

Why Organizational Resilience?

Organizational Resilience is Valuable:

- Good for communities
- Good for productivity
- Good for you

So how to survive and thrive no matter what comes your way?

Sandler O'Neill & Partners

- Investment bank for thrifts, banks and S&Ls
- Founded in 1988
- Grew by hiring friends & family
- A money machine

Death Toll

- 66 dead 46 widow(er)s
- 71 children under the age of 18
- 100 parents lost sons and daughters
- Equity Department: 20 of 24 killed
- Nine of Sandler's 31 partners perished
- 2 of 3 managing partners

Sandler O'Neill 9/11/2001

| | | | | |
|---|----|--|-----|--|
| Sandler O'Neill employees September 11 th 2001 | | | 171 | |
| Total based on the 104 th floor of the World Trade Center | | | 149 | |
| Killed by the attacks | 66 | (two consultants and two visitors were also killed) | | |
| Exited building and survived | 17 | | | |
| Witnessed events from concourse or nearby | 24 | | | |
| Traveling or not yet at work | 42 | | | |
| Total based in satellite offices | | | 22 | |

The following week

- 9/12 Dunne decides the firm *must* survive
- 9/13 Dunne announced this in an emotional meeting with the employees
- 9/17 SO resumes trading / CNBC in error broadcasts that Sandler O'Neill would not remain in business
- 9/19 Dunne pledges that the firm would not let "terrorists win and undermine America"

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Recovery

- No deals or clients were lost.
- Two months after attack, SO was profitable again.
- May 2002: Profitability and Revenue fully recovered; Revenue per partner, per professional and per employee higher than ever
- strengthened core through high quality new hires
- Built a new business underwriting an annualized \$23 *billion* in initial public offerings.
 - Developed a second new business in preferred stocks.
- Built a state-of-the-art facility to which they moved on January 18th

All achieved while providing care, salary, bonus and benefits to families of deceased

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Overview of Findings

- I. General observations about organizational loss and recovery
- II. Sources of Sandler O'Neill Resilience
- III. Mechanics of Sandler O'Neill Resilience

Findings I. About loss and resilience

Organizational Losses even more severe than imagined.

Non-obvious losses:

- People
- Wealth
- Systems, Routines and Processes

World Trade Center attacks vs. Other Industrial Crises:

Some aspects of the situation augured favorably for recovery

Organizational Losses: People

- Mentors, friends, colleagues and skilled people.
 - “I lost my mentor and my best friend... who do I even consult now?”
 - SO was an exceptionally tight knit firm... “we all grew up together.”
- Client Relations: “Loss of life is catastrophic in an industry that relies on personal relationships.” (Business Week, 9.13.01)
- Cost of Surviving:
 - Attended funerals/memorials (21 over one weekend).
 - Contacting and speaking with the families of the deceased, well wishers, media and “everyone we ever had contact with”.
 - Making personal sense of what happened and attending to one’s psychological and emotional needs
- Time, cost and effort to hire, train, orient (and sometimes fire) new employees

Organizational Losses: Wealth

- Income stream shut down
- Expenses soared
 - All the normal business expenses +
 - Rebuilding +
 - Legal, public relations, counseling and other special extraordinary issues
- Loss of Capital
 - 9 partners died: deceased partners’ interest was paid out.

Organizational Losses: Systems, Routines and Processes

- **Intangible assets**

- Institutional Knowledge and Records
 - All computers, paper files and corporate records were lost.
 - Client and contact lists had to be recreated from memory.
- Technical processes
- Physical Systems: short, interim & long term solutions needed

- **Supervisory Structure Decimated**

“For every function, we had to ask, Who’s left here to do it? Can we still do it? Who do we need in the short term? Who do we need in the long term?”

- **Organization Routines and Processes**

“66 of my colleagues died, [which] made my ability to do everything much more difficult ... We had a shorthand. I would talk to Z at least 3 times a day every day. We didn’t need to speak for long, just 30 seconds. But that takes 5 minutes with everyone else.”

The Source of Sandler O’Neill’s Resilience

Moral Purpose

Direct motivation

An ability to get help

The pull of opportunity

Moral Purpose: No longer just a “money machine”

Pre 9/11: The firm as instrument for “feeding the mouths of families”

Post 9/11:

“I feel more motivated and more determined. We have more responsibility to ... [rebuild the firm] for those who are gone.”

“I never really wanted to come back to the Street after I left, but this is different. From just a moral standpoint, it is absolutely the right thing to do.”

Motivation and Moral Purpose

- Employees
 - When Sandler’s salespeople sold stocks and bonds, they were selling for their dead colleagues as well as themselves
- Customers, Suppliers, etc...
 - Clients wanted to honor their relationship with those who died
 - Most people felt that they participated in the recovery

Attracting Help and Moral Purpose

- Outsourcing extraordinary demands
 - Making use of volunteers
- Crisis generated publicity
 - Adroitly managed rare public profiles
 - Help from larger banks and competitors
- Openness to receiving help is not that common:
 - Trauma can be isolating
 - Other firms withdrew

The Pull of Opportunity and Moral Purpose

- Enormous effort put forth. How to explain it?
“Sprinting a marathon”
- Tragedy’s upside: (Individual) Opportunity
“For every deconstruction there is construction”
“...more opportunities that you could follow up on”
- Opportunities at the firm level
“Competitors included us in underwriting. Companies that we would never speak with ... an open forum. Some of these relationships will be enduring.”

The Pull of Opportunity and Moral Purpose

- Structural Opportunity
 - IT: “Opportunities start from an empty space”
 - Dunne: “people that can broaden our scope”
- Opportunity to hire well
 - Slots for strategic, high-quality new hires
 - Favorable publicity → Ivy league interns

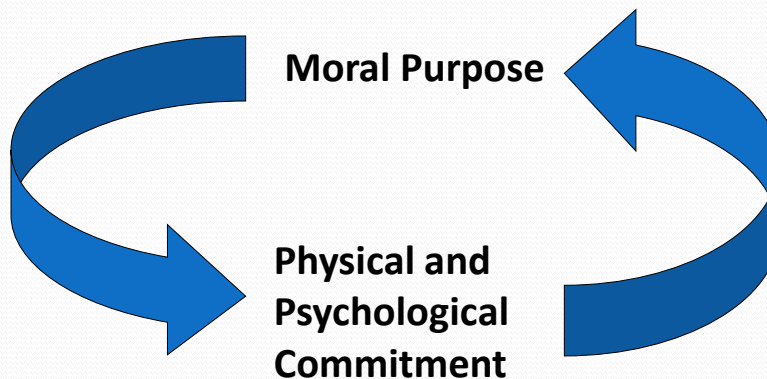
Under what conditions would finding opportunity in a colleague's tragedy not feel like dancing on their grave?

- Reservations even at Sandler O'Neill:
 - “You have been given five new accounts that were existing Sandler O'Neill clients. ... Do I deserve someone else's money?”
 - “I took on coverage of better accounts. This is not the way you want to get them. It is an uncomfortable idea.
 - “I am glad to be here but not happy for the reason why.
- Morality's Liberation of Ambition
 - In normal business: coworkers' ambitions often clash
 - In this case: One person's ambition becomes a gift

Intersection of Moral Work and Opportunity

| | | <i>Pull of Opportunity</i> | |
|-------------------|----------------------|--|---|
| | | <i>No</i> | <i>Yes</i> |
| Moral Work | Y e s | Volunteer work Average psychological and physical resources | Invigoration (Sandler O'Neill) Substantially increased psychological and physical resources |
| | N o | Demoralization (Enron) Psychological and physical resources are depleted | Normal business life Average psychological and physical resources |

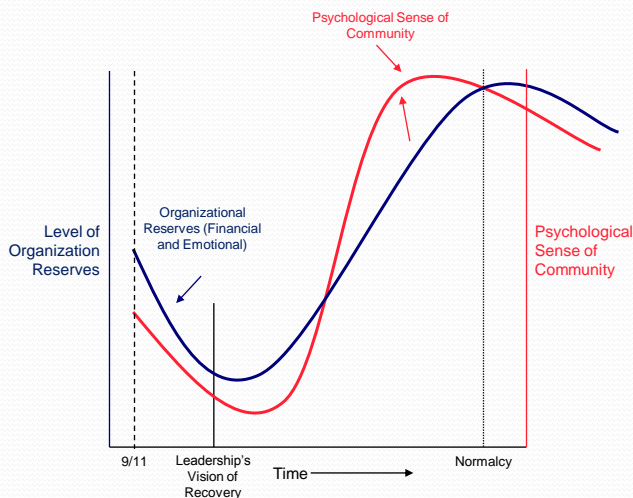
**Rather than a “Doom Loop,”
SO created a virtuous circle**



Psychological Containment

- Hired outside psychologist – unlimited care.
- People given time and place to grieve. Workplace was for work.

Psychological Sense of Community



Sandler O'Neill was rebuilt by creating a **sense of community** that encouraged individuals to give extraordinarily of themselves.

Organic Structure Teamwork and Self-Management

- Family feeling
 - hired through friendship networks
- Small size, flat structure
 - “cultural aversion to a large support staff”
 - “senior ranks ... willing to go down and dirty”
- Culture of merit delimited impact of status
 - Everyone takes it upon himself to be presumptive.
- Self-Management/ self-regulation

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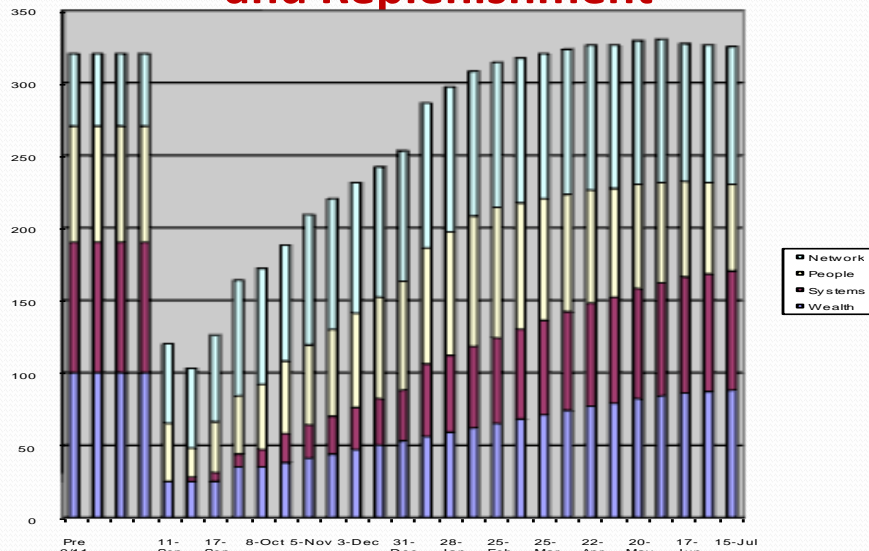
Reserves, Depletion and Replenishment

| | Prior to September 11 th | September 11 th | Post September 11 th |
|----------------|---|---|---|
| Wealth | The firm is a money machine, wealthy and capable of creating new wealth. | Wealth is dramatically reduced through deaths. Potential for creating wealth has, for the moment, been severely hampered. | Ability to create wealth rapidly returns. |
| People | Highly competent and dedicated. Some partners semi-retired or less-active in the day-to-day business. | 39% are dead. Others are devastated. | People make a tremendous effort; new employees are hired and contribute immediately. (By March, 2002, signs of stress.) |
| Systems | SO is lean and well-coordinated. Employees are close, socially related; the firm hired friends and family of friends, clients and associates. | Facilities, records, data and physical history are destroyed. Deaths also mean loss of coordination and communication. | Systems are rebuilt; a new office and infrastructure are established. |
| Network | External relations very good; SO has excellent reputation in its markets. | Goodwill has increased; worldwide sympathy from onset; soon, worldwide respect. | External relations are extraordinary; clients, customers and competitors give all they can; major media stories help the firm achieve fame and admiration |

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Modeling Resilience: Reserves, Depletion and Replenishment



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Practice Issues

- The human side of disaster planning: building social capital, self-management capability
- Unleashing the resources created by moral engagement and the pull of opportunity
- Containing grief and anxiety in the organization
- Recognizing and seizing opportunity from crisis
- Availing oneself of help
- A culture that facilitates self-managing teams

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Economic Crisis & Organizational Resilience (Argentina 2001-2002)

1991: Argentina pegs currency to the US dollar
1991-97: Government borrows extensively
1999: Recession hits, government can neither cut spending nor pay debt
2001: Five (5) presidents in 15 days → “Corralito”
March 2002: Currency collapse; confidence collapse.
Debt paid in dollars; Income in devalued Pesos

Cases: Tetra Pak & Crear Vale La Pena

Characteristics of Resilient Organizations

- Visionary Organization
- Psychological Containment
- Cognitive Capabilities
- Organic Structure
- Attitudes of resilience
- Resources

Visionary Organization

- *Building organization*
- *More than profits:*
- *Core values that stimulate progress*
- *Big, audacious goals*
- *Cultures that bind*
- *Experimentation and opportunism*
- *Homegrown management*
- *Continuous improvement*
- *Alignment of goals, incentives, organization... everything*

Psychological Containment

Systems to prevent grief and anxiety from overwhelming response and recovery

Cognitive Capabilities

Entrepreneurial orientation: Seek proactive innovations, beating competitors to the punch

Mindfulness concentrated awareness of thoughts, actions or motivations. Attention to small deviations in expected patterns.

Constructive sensemaking -- the process of creating situational awareness and understanding in situations of high complexity or uncertainty in order to make decisions: a continuous effort to understand connections among people, places, and events in order to anticipate their trajectories and act effectively.

Virtual role systems -- the ability of members of an organization to play the roles of all others when necessary (for teamwork as well as substitution)

Organic Structure

Replicative abilities, distributed authority, and decentralized structures with redundant nodes

Attitudes of Resilience

- *Self-responsibility* to assume one's own place in the world, rather than to let others dictate it
- *Attitude of excellence*: Those used to pushing themselves will find it easier to give the push needed in a crisis.
- *Other orientation* provides a purpose, encourages help from others, helps one avoid obsessing about one's own problems, and helps organize response.

Reserve Resources

Money, technical systems, social capital, human resources and leadership reserves -- that can be drawn upon in an emergency

Individual Resilience & Organizational Resilience

Extensive research has been done on individual resilience. We find parallels between their conclusions about what makes individuals resilient and our findings about what makes organizations resilient

Skills that enhance Resilience

| Skills | How it helps individuals | Sandler O'Neil |
|--------------------------|---|---|
| Strong vocational skills | (1) Source of esteem & income (2) Tangible evidence we can contribute. | A solid company with a solid niche. |
| Social skills | Encourages help from others | Highly networked with clients and competitors. Highly ethical in practice |
| Change skills | Change itself is a source of disaster stress. Being accustomed to small changes helps prepare for big ones. | A small firm in which everyone would try on different hats from time to time. |
| Coping skills | Manage the feelings: don't deny or obsess. Understand the new problems and directly address them. | Firm hired a grief counselor. Encouraged all to explore their feelings, allowing an appropriate place and time. The workplace was for work. |

Practices that enhance Resilience

| Practice | How it helps individuals | Sandler O'Neil |
|---------------------|---|--|
| Hobbies | Stress buffers. satisfaction, enjoyment help to get over tough times – a reason to hang together. | Many good memories. Regular parties and outings (ball games, family events). Shared vacations |
| Goal-orientation | Set realistic goals that motivate, but permit flexibility and do not add to stress under difficult circumstances. | Clear goals established from the onset. President laid out what had to be done. No strict timetables. People worked under frustrating conditions, but always had a goal in mind. |
| Role models | Models make any task is easier. Especially unfamiliar, difficult tasks | Former (dead) president company president was a model for successor, who was a model for surviving employees. Mayor Giuliani also seen as a model |
| Cognitive reframing | Minimize the negative impact, maximize any positive impact | Crisis as opportunity. The chance to: lead; redesign ideal departments; do the jobs that they wanted to do; perform in the spotlight; meet a challenge; be a hero. |

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Attitudes that Enhance Resilience

| Attitudes | Why it helps individuals | Sandler O'Neil |
|-------------------------|---|--|
| Self-Responsibility | To assume one's own place in the world (rather than let others dictate it). Being proactive provides a way to accept new conditions and move forward effectively. | An entrepreneurial firm that charted its own course from the beginning |
| Excellence | Those used to pushing themselves will find it easier to give the push needed in a crisis | A firm based on excellence accustomed to giving their best. |
| A meaningful philosophy | A cause can serve as inspiration and provide other-orientation. Crisis can bond a group. | Do it for those who died and their families "We're not going to let Osama bin Laden beat us." |
| Other orientation | Provides a purpose, encourages help from others, helps avoid obsessing about one's own problems, and helps organize response. | Total commitment to helping the families. |

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