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The coronavirus provides an opportunity to hone crisis response plans for the next big challenge

By Sascha Matuszak

The coronavirus that has, at the time of writing, <u>infected more than 40,000 people</u> around the world and killed more than 1,000,[1] is also ravaging international trade and global supply chains. Companies with manufacturing operations in China have shut down factories, told employees to stay home, pulled expat employees out of country and issued varying degrees of shutdown orders that could extend deep into February.

Some of the actions companies are taking in response to the coronavirus are:

- Suspending all business travel to China

- Reducing or avoiding all international travel

- Idling factories

- Implementing visitor limitations

- Prescreening individuals and visitors for China contacts

- Establishing quarantine procedures for employees returning to the office from abroad

Although these actions are meant to keep employees safe, there are other issues at hand as well. Apple Inc. adjusted earning expectations due to the uncertainty of the effects of the virus not only in China but also around the world. Hundreds if not thousands of other companies are facing similar problems as supply chains shut down, leaving factories either idle or short on materials, or without the freight capacity to move products. Air freight and commercial flights have been dramatically reduced, creating a bottleneck that will have repercussions down the road.

The bottleneck is exacerbated by just-in-time manufacturing that calls for efficient use of resources but also faces the disadvantage of a possible shortage if supply chains are rocked by an unforeseeable event. The trade war between the United States and China has made the impact of the coronavirus much worse, as companies that were struggling to afford tariffs, reshore supply chains, and find some certainty in their business are thrown for yet another loop.

"I was just on a call the other week with members of [the Manufacturers Association for Productivity and Innovation] MAPI about the coronavirus and the response to it, and members were sharing what they were doing," said Gwen Hassan, managing counsel, global compliance and ethics for CNH Industrial. "Companies are bringing people home, quarantining them, and discussing their health issues, which brings up potential HIPAA issues and questions regarding data privacy and GDPR. It really becomes very complex as organizations are trying to simultaneously keep their people safe, keep their businesses running, but at the same time be cognizant of relevant regulations both in China and around the globe."

"It gets very complex, very quickly," she added.

Putting together an effective crisis response plan

Organizations that have a crisis response plan in place are much better positioned to handle things like the coronavirus outbreak than organizations that have a patchwork series of protocols or an ad hoc response plan. No organization can predict a pandemic, but given the increased interconnectedness of the world; the rise in unpredictable weather due to climate change; and recent global health crises such as MERS, SARS, bird flu and Ebola, organizations without a crisis management plan built upon thorough risk assessments need to put one together now.

"I rely on the private sector, and what they are doing, to help formulate a plan," Hassan said.

CNH Industrial has been further formalizing what was previously a more informal crisis response protocol. The compliance team is working closely with the company's global compliance committee, enterprise risk management and corporate communication teams to create a model that can be customized to fit the unique risk profiles of each of their company locations. The coronavirus outbreak makes that work even more timely and, importantly, has furthered the existing executive suite support for formalizing the program.

For the crisis response plan, Hassan drew upon Gartner's Compliance and Ethics Leadership Council for resources, as well as ideas and templates from colleagues in and around the Chicago area, where CNH Industrial has its North American headquarters. She also attends regular conferences and meetings put on by risk assessment and compliance experts and consultancies such as Control Risks, who produce an annual risk map. She is also a member of several informal groups, such as the North Shore Compliance Officers' Roundtable and the Chicago Regional Business Ethics Network. These informal groups overlap with several Listservs, where compliance professionals and legal counsel share benchmarking information and ideas about best practices related to compliance and supply chain issues.

"I am a big proponent of crowdsourcing and then customizing to fit my company," Hassan said. "It just is not efficient to recreate the wheel when you can learn from the successes and, for that matter, the challenges of others."

Here are some other publicly available resources that provide the basics of a crisis response plan:

- Centers for Disease Control and Prevention *Supply Chain Disaster Preparedness Manual*:[2] The manual targets health care supply chains and the health care sector in general, but it is still very useful as a general template.

- Securities and Exchange Commission Guidance Regarding Disclosure Related to Climate Change:[3] This is a good resource for understanding what you should know and be able to report.

- Committee of Sponsoring Organizations of the Treadway Commission and the World Business Council for Sustainable Development report on environmental, social and governance risks:[4] This report details how companies with good risk management protocols outperform those without them—an incentive for getting the response plan down and convincing the C-suite to get on board.

Learn from the past

The goal is to create resilience and redundancy in your supply chain so a crisis can be weathered without major business disruptions: layoffs, reputational and brand damage and loss of market share. A common aspect of an

effective plan is brainstorming every possible risk (e.g., epidemics, earthquakes, major power failure, hurricanes), but perhaps the most important aspect is the review process—being able to look back at previous responses and learn from them. Coronaviruses are not new; viruses coming out of China and disrupting the supply chain are not new. Organizations that are putting together a plan to address the current issue right now could have benefited from a review after the previous shock—or at least a review of what other organizations had done in similar situations.

Regardless, how your organization responds to this most recent crisis needs to be documented and then analyzed after the crisis has been contained. Root cause mitigation and lessons learned must be implemented into a revised and modified plan that remains flexible and adaptable. Companies that have experienced a disruption due to an earthquake, for example, will find certain aspects of a response plan (clear chain of command, present response modules and activation protocols, for example) work across the board, whereas others, such as quarantines and travel restrictions, are modules that can be pulled off the shelf when needed.

Takeaways

- A crisis response plan is more necessary than ever as climate events, epidemics and other unforeseeable challenges can easily disrupt and even shut down global supply chains.

- There is no need to reinvent the wheel. Past crises and responses provide valuable insights, and formal and informal groups can and should share data and tactics to help each other prepare for unpredictable challenges to supply chain management.

1 World Health Organization, *Novel Coronavirus (2019-nCoV): Situation Report* 22, February 11, 2020, http://bit.ly/2UOjGe7.
2 United States Centers for Diseases Control and Prevention, *Supply Chain Disaster Preparedness Manual*, http://bit.ly/2Hez8sf.
3 Securities and Exchange Commission, "Commission Guidance Regarding Disclosure Related to Climate Change," February 8, 2010, http://bit.ly/2C2VR95.
4 Committee of Sponsoring Organizations of the Treadway Commission and the World Business Council for Sustainable Development, *Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks*, February 2018, http://bit.ly/2KZ2ePU.

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