



Do You Have the Skills to Manage a Crisis?

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The tsunami that devastated northern Japan and wreaked havoc on the world's third-largest economy delivered a shocking reminder of the vulnerability of supply chains to catastrophic disruptions. Other recent examples of such calamities include the earthquake that struck Haiti in 2010 and Hurricanes Katrina and Rita in 2005.

While much of the physical destruction caused by disasters like these is unavoidable, it is possible to mitigate the business impacts. For example, Japanese car manufacturers suffered production stoppages and parts supply interruptions in the aftermath of the tsunami. But the manufacturers were proactive in keeping customers informed of developments and working with current and prospective suppliers to minimize the supply chain fallout.

In light of these experiences, what supply chain skills are needed to be prepared for large-scale disruptions and to recover quickly when disaster strikes? And who in the organization should take the lead in developing response strategies?

Risk Management Plus

All supply chain managers are risk managers in the sense that they regularly deal with risks across the supply chain. They hedge demand uncertainty with extra finished inventory or additional capacity, and guard against supply uncertainty with dual sourcing and raw material inventories. Supply chain managers buffer the organization against unreliable manufacturing operations with multiple production lines and plants.

While these areas of expertise are invaluable in crisis situations—and underline the supply chain's critical role during emergencies—companies with complex supply chains also need dedicated risk management resources. An individual or internal organization should take the lead in developing business continuity plans and assessing the risks

throughout the supply chain.

The specifics of this role will vary from company to company. But often the lead person is called the supply chain risk manager (we shorten it as SCRM here) and has responsibility for managing risk for the entity, which could be a business unit, a product line, or a product category.

Skill Set Needed

The skills required to fulfill the SCRM role are reflected in the activities that need to take place both before and after a disruption hits the organization.

Before the Event Happens

The secret to successful response to disruptions is to prepare *before* the event occurs. To do this effectively, the SCRM needs to address some critical questions: What disruptions could happen? And how would these supply interruptions affect the business? Importantly, this individual also must consider both the possible sources of a disruption as well as the associated end states—and recognize that these scenarios represent different challenges. In considering the sources (for example, earthquake, tsunami, hurricane, labor action, fire, terrorist attack), the SCRM assesses the probability of potential events, and decides which require preparatory actions.

Humans are creatures of habit—a truism that is reflected in the amount of attention people pay to various types of risk. A recent survey by the MIT Center for Transportation & Logistics (MIT CTL) of 1,500 supply chain managers asked these individuals to rank a list of 25 risks from most to least frequently occurring. They judged supplier failure to be the most frequent risk event and earthquakes as the least frequent. The next question asked them to rank the importance of these same 25 risks to their supply chain. The rank ordering of importance was almost identical to that of frequency.

The survey results strongly suggest that the respondents were using one metric—frequency—to judge the importance of a disruption. But what about severity of the impact? Don't earthquakes do a lot more damage than a supplier failure? As creatures of habit, these managers focused their attention on the familiar risks that happen most often. A talented SCRM should avoid forming a "risk comfort zone" and put all forms of risk in proper perspective.

Having identified the types of disruptive events and potential impacts, the SCRM can then develop appropriate contingency plans. What actions can be taken to ensure that the business continues to operate even if it loses the ability to produce, ship, communicate, and secure supplies, for example? The level of planning required to formulate back-up plans requires creative thinking and a "preparation" mindset.

Still, back-up plans alone are not enough when responding to a severe disruption. The SCRM should also establish resources such as emergency response centers (ERCs), communications systems, chain-of-command structures, and business continuity plans that can be activated when the enterprise is thrown into a crisis.

Finally, the supply chain risk manager must help to educate employees and increase awareness of emergency response practices. This will encourage employees to consider potential crises, be aware of the consequences, and think about what measures can be taken to prevent or mitigate the impact of a business interruption.

After an Event Happens

After a disruption, the focus shifts to recovery and implementing the contingency actions that have been developed for such emergencies. The key is to react quickly: companies that delay not only risk a lengthier recovery, but have more difficulty securing scarce production capacity that has already been taken by nimbler players.

Typically, an organization will activate an ERC at the corporate level or in the region where the event occurred, or both. An ERC can even be "virtual." In the Japanese tsunami disaster, for example, Hewlett-Packard set up a virtual situation room where managers across the world could pool information.

The ERCs should be staffed by key functions that typically come under the supply chain umbrella such as procurement, operations, and distribution. The SCRM directs the overall effort, though he or she may or may not be a part of the team. These functional experts are the central coordinators for the supply chain response. They need knowledge and a skill set that may not normally be part of supply chain manager's make-up. For instance, they must

be intimately familiar with the business continuity plans established by the planning group. And they should be able to interpret the plans quickly and adjust them as needed depending on how the situation is unfolding.

This type of decision making requires the ability to work under extreme pressure with limited data, and to coordinate across many parties in the supply chain. These emergency response specialists work effectively in an informal hierarchy and, where necessary, assume authority over more senior managers.

Managers with these "extreme" problem solving capabilities rapidly consider a situation and craft creative solutions to unanticipated problems. Similar to a broken field runner in football, they are able to handle surprises without being derailed and come up with innovative solutions. Such innovation was evident at one company

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that was faced with the loss of a critical petroleum-based packaging material in the aftermath of Hurricane Rita. It redesigned its packaging around non-petroleum-based materials as a near-term solution to circumvent the material shortage. This undoubtedly entailed a cost increase and numerous changes. But the problem solvers did not accept the base constraint and found a solution that kept their products on the shelves.

Emergency responders also require a mix of diplomatic and listening skills—and a thick skin. They also must be exceptional communicators. These individuals are the company's main channel of communication both internally and externally in crisis situations. The external audience includes highly demanding media representatives.

Expect the Unexpected

Mercifully, disruptions on the scale of the tsunami that ravaged Japan are few and far between. But that does not mean that supply chain organizations should ignore the possibility of being affected by such disasters.

Steeling the supply chain against calamities is part of a culture of emergency response that any enterprise can benefit from. But that culture requires specific skills that are not part of regular supply chain operations. It is incumbent upon companies—particularly large organizations with complex supply chains—to nurture these skills and identify individuals who can take the lead in supply chain risk management.