

Are Your Risk Plans Updated for the Next Disruption?



IMEC
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**Change happens when the
pain of staying the same is
greater than the pain of
change.**

-Tony Robbins

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Mission, Vision and Values

- Business has a multifaceted set of responsibility driven by the Mission, Vision and Values impacted by:
 - *Owners*
 - *Employees*
 - *Customers*
 - *Suppliers*
 - *Regulations*
 - *Environmental...*
- Each can have different impact or potential disruption depending on the business.

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WHAT ARE SOME POTENTIAL DISRUPTIONS?

- Financial impact?(Company wide – High Impact)
 - *COVID-19 II*
 - *Loss of Key Employees*
 - *Loss of Key Supplier*
 - *Loss of bridge loan*
- Weakest process? Sales, Purchasing, Manufacturing, QA or Mgmt
- Depends on your organization....but ultimately something is different...

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Context – What you do | What you make?

- Planning for and building plans to head off risk are determined by the business you are in.
- What does Amazon do? Vs. disruption
 - *Online Retail Sales.... Website impact*
 - *Distribution..... Weather*
 - *Amazon Web Services.... App failure*

Most companies impacted by COVID-19

Understand what drives your business products and/or services



General Risk Management Posture

| Risk to Business | Truly know risks? | Documented Plan? | Process? | Explanation |
|------------------|-------------------|------------------|----------|--|
| Low - Complete | Yes | Yes | Yes | 5W2H – Action Plans with process and assigned responsibility / High Risk |
| Medium - Partial | Yes | Yes | No | Action Plan – No process flow or responsibility |
| High - None | No | No | No | Uh oh..... |



Disruption = Change

- Disruption is a change from the normal
- The degree of change is measured against the organization
 - Change to ingredient suppliers in food manufacturing is challenging, but not if you are not manufacturing food items
- Planning for change is hard and relies on people and theoretical events
- Breaking down the organization into process steps helps by working on subset of business

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Disruption – How Often? How Bad?

Threshold Response

| | | | | | | |
|--|----------|---------------|-------|-------------|--------------|----------|
| | | Moderate | Major | Critical | Catastrophic | Critical |
| | Likely | Moderate | Major | Minor | Critical | Critical |
| | Possible | Moderate | Minor | Major | Minor | Critical |
| | Unlikely | Minor | Minor | Minor | Major | Minor |
| | Rare | Minor | Minor | Minor | Minor | Major |
| | | Insignificant | Minor | Minor | Minor | Critical |
| | | | | CONSEQUENCE | Major | Critical |

- Review based on probability | likely
- Types of Disruptions based on Context
 - Happens every week vs. once in 10 years
 - Speed of Risk (How quickly impacted)
 - Fire, Tornado – fast
 - Pandemic – medium
 - Loss of employee knowledge – slow
- Devastation (How large the impact)
 - Financial Loss
- Any potential change to the organization has impact based on probability of occurrence!

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Risk Management Profile - Basics

- How severe is the potential threat? H M L
 - *If you want better discrimination (1 to 5)*
- How likely will it occur H M L
 - *If you want better discrimination (1 to 5)*
- With better discrimination
 - *Severity X Occurrence = #*
 - *Identify a # that you must react to... prevents responding to everything with limited resources*

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Planning Standard Work for Disruption (5W2H format)

- What should be considered as part of the planning standard work for strategic planning to avoid disruption?
 - *What, when, why, where will you maintain the PLAN?*
 - *How often will you update the PLAN?*
 - *How will you communicate the PLAN?*
 - *Will you perform a trial run or at least confirm the parts?*
 - *What are the roles planned and have they been confirmed?*
 - Sales, Purchasing, Scheduling, Manufacturing, Engineering, Shipping
 - *What is the process now; What will the process be?*
 - As an example, can you use technology to bridge deficiencies?
 - *Written or documented Plans are the most reliable.*

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Do you have metrics? Are they effective?

- Determine thresholds for action
 - Drop in Sales of 5% (Action A)
 - May not be a disruption or normal business fluctuation; No significant reaction
 - Drop in Financials of 20% (Action B)
 - Communications response to internal | customers | suppliers
 - Considered a major disruption
 - Drop in Staff of 20% (Action C)
 - Communications internal | [execute cross training plan](#)
 - Considered a moderate disruption

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Disruption Planning

- Risk Management Project Planning
 - Communication Planning
 - Financial Planning
 - Product or Service Planning
 - People Planning
 - Supply Chain

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Disruption – Communication Plan

- Communication Planning
 - *What is the situation?*
 - *What is the impact?*
 - *Who is involved and what is needed from them?*
 - *Where will communication be updated?*
 - *How often will the team be updated...*
 - *Customer communication*
 - *Supplier communication*

- Any concerns – generate action items

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Disruptions – Financial Impact

- Financial Planning
 - *Short Term Securities Positions*
 - *Cash*
 - *Treasuries*
 - *Commercial Paper*

- Any concerns – generate action items

What is your Liquidity?

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Disruption – Product or Service Impact

- Product
 - *Depends on the product you offer (Context)*
 - *Raw Material Supplied*
 - *Manufacture (Automation vs. Manual Labor)*
 - *Regulations (e.g. FDA, UL, OSHA, etc..)*
- Service
 - *Installation of a product you build*
 - *Non-product related services (e.g. Mobile Welding)*

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Disruption – People Impact

- People
 - *Management of people and reactions is perhaps the most challenging. Change is Key:*
 - Physical Safety Plan (e.g. separation, physical location)
 - Modification of Responsibilities Plan
 - Move, furlough, unemployment
 - Illinois has restrictions on unemployment vs. compensation
 - Modify Availability (e.g. daycare, offset shifts)
 - Pivot.....
 - *Together with communication (key)*
 - *Remember Change Management. Its hard to change. The key is in explaining why.*

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Disruption – Supply Chain Impact

- Where are suppliers located / long transportation?
- What % of the supplier business (your impact)?
- Contracts for stock on hand
- Potential impact (e.g. certain areas subject to war)
- Are you sole sourced in any material for key product (80/20)?
- How are the terms / can they be pushed?
- Are all suppliers affected or the targeted few?

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Disruption - Human Impact

- Are you potentially losing business?
 - *Will you lose key employees?*
 - *Are you providing incentives to stay (e.g. environment)*
 - *Are you navigating high turnover?*
 - *How committed to the business is your staff?*
 - *What are your business strengths?*
 - *Is your staff able and willing to pivot?*

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PULLING IT ALL TOGETHER

- Determining Risks | Standard Work
- Risk Action | SWOT Updates (Action)
- Financial vs. Human Impact (Balance)
- Pivot

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Determine Risks


Table 3a.1: Example risk inventory

| Strategic | Operational | Financial | Compliance |
|---|---|---|---|
| <ul style="list-style-type: none"> • Vision and core values • Corporate governance • Organizational structure • Strategic planning • Mergers and acquisitions valuation and pricing • Investor relations • Competition • Changing customer preferences or lifestyles • Growing middle class • Urbanization/growing population • Emerging markets | <ul style="list-style-type: none"> • Research and development • New products • Marketing • Budgeting and forecasting • Raw material availability • Suppliers • Production management • Product stewardship • Inventory management • Employee engagement • Labor relations • Human rights • IT investment • Cybersecurity • Business continuity • Pandemic • Physical impacts of climate change | <ul style="list-style-type: none"> • Interest rate volatility • Foreign currency volatility • Cash management • Credit risk • Accounting policies • Accounting estimates • Internal control • Tax strategy and planning | <ul style="list-style-type: none"> • Fraud • Bribery • Conflicts of interest • Country/state/local regulation • Tax regulation • Trade regulation • IP management and protection • Greenhouse gas emissions • Water treatment • Health and safety |

Source: <https://www.coso.org/Documents/COSO-WBCSD-ESGEM-Guidance-Full.pdf>

- The example may seem overwhelming, but its just a tool to help group risks for assessment

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Risk Action | SWOT Updates

This is doing!

- Strengths –
 - *What did you learn....that you want to maintain or build upon*
 - *Keep doing this*
- Weakness –
 - *Where did it hurt... what to avoid*
 - *Figure out how to convert this to a strength*
- Opportunities –
 - *What surfaced with relationships / new projects / new contacts*
 - *Keep doing this*
- Threats –
 - *Were existing threats worse than thought | new threats?*
 - *Figure out how to plan for a threat to be an opportunity*

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Pulling it together – standard work

- What is standard work for the Risk Response?
 - *Process that is optimized, repeatable, less issues*
- 5W2H
 - *(Whom) Manages it*
 - *(What) Topics to discuss...SWOT?*
 - *(When) Working sessions or updates*
 - *(Where) Facilities affected...markets affected*
 - *(Why) Financial planning, human planning*
 - *(How) Formal with agenda vs. informal*
 - *(How Many) Monthly, Quarterly, Bi-Annual, Annual*
- Standard Work allows you to ask (1) Question
 - *Did you follow the standard?*

*Current Standard
AND New Standard*

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Unplanned Risk Examples?



<https://www.cso.org/Documents/COSO-WBCSO-ESGEM-Guidance-Full.pdf>

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SWOT Updates Worksheet(Example) Second Wave – COVID-19

| | What learned? | New Planned Action |
|---------------|---|---|
| Strengths | Organization is technical and can work virtually autonomous | Develop the Microsoft Teams system. Evaluate improve virtual workflow (6/2020) Joe |
| Weakness | Unable to manufacture during event as assembly environment not physically separated | Design a facility with separation between folks; PPE; Food Safety Level Training (cGMP) (7/2020) Ed |
| Opportunities | Suppliers can build sub-assemblies (do what we do) | Validate supplier capability; setup systems for opportunity (8/2020) Jaime |
| Threats | Asymptomatic | Pulse Ox meters can signal early warning; HIPAA compliance (6/2020) Jill |

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SWOT Analysis

Potential Disruption – Assessment

- We are in the process of the COVID-19 Pandemic. How would you adjust your SWOT Analysis for a second wave of this pandemic should it occur November 2020?
 - *How will you maintain your strengths?*
 - *How will you convert your weakness?*
 - *How will you seize or create new opportunities?*
 - *How will you offset Threats?*
- Each of you has different circumstances, I offer you a Leadership challenge to plan for this....

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RISK RESPONSE PLANNING

- Can you pivot and manufacture a different product or service?
- Can your customer | supplier use resources to build product?
- Are you able to establish an alternative system for employees?
- Are you financially strong enough | credit available?

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Update – Disruption Plans to bring it together

| | Who? | Scope | Action | Date |
|----------------------|-------|--|----------------------------|------|
| Communication Plan | Joe | Addresses catastrophic events (fire, flood, pandemic only) | Team uses Slack MS Teams | 6/20 |
| Product/Service Plan | Bill | Priority manufacture / service | Control Plans | 6/20 |
| Customer Plan | Sue | Daily Updates Impact | 80/20 Plan | 7/20 |
| Supplier Plan | Amy | Daily Updates Impact | 80/20 Plan | 7/20 |
| Human Resources Plan | Jeff | Redundancy | Cross train | 5/20 |
| Financial Plan | Aaron | P&L, Income drive action, Limits to spending / expense and CAPEX | Short Term | 5/20 |

This plan should be periodically reviewed...

Disruption plans are specific to the risk to the business. Each disruption that is severe or highly likely should consider its own plan.



Thank you.

