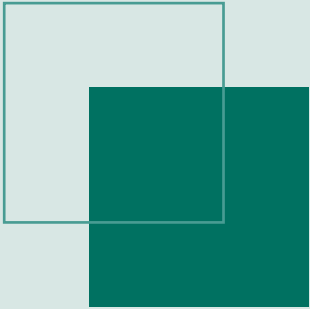


Global Pandemic

Don't just survive – come out with a competitive advantage
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Natural disasters and terrorism

One might ask: How does the impact of a pandemic stack up against big natural disasters and acts of terrorism? Not even close.

As horrific as they were, the Indian Ocean tsunami, the Afghan earthquake, hurricane Katrina, and 9-11 are blips on the mortality and economic radar screens.

A pandemic is like hundreds of neutron bombs exploding across the globe – little infrastructure damage, just tens of millions infected and a million-plus deaths. No one is exempt anywhere there is much commerce.

Some planning and contingencies will, however, be applicable to all three classes of crises.

Introduction

The prospect of a global pandemic is, as many scientists say, not a matter of “if” but “when.” It may or may not be the current flu strain, but it probably won’t be too far into the future.

For executives, whether to act now or not hinges on 1) economic risks (to include brand and other intangibles) and 2) the importance of “social responsibility” – a question that has challenging boundaries to resolve for most organizations.

Here are some current facts:

Global health dynamics

- H5N1 influenza (“bird flu”) has been reported throughout Asia and into Eastern and Western Europe – as far west as Scotland and France. The bird flu has “jumped” to a small number of humans in nine countries – from Turkey and Egypt to Vietnam and China. More than half of those infected have died, but the mortality rate is expected to be significantly lower in developed countries.
- The *New York Times* reported (14 May 2006) that UN health officials say the current flu has been largely eliminated in Vietnam and Thailand.
- In any case, the World Health Organization (WHO) warns that “once a fully contagious virus emerges, its global spread is considered inevitable.”
- Experts say there will be up to three waves or cycles of the flu migrating around the world.
- The Brookings Institute says a “mild” scenario will kill 1.4 million worldwide – with ten times as many dying in the worst case scenario.
- The U.S. Center for Disease Control and Prevention (CDC) predicts a significant portion of the U.S. population will be affected with 90,000 to 200,000 deaths, 300,000 to 700,000 hospitalizations, 20 to 40 million outpatient hospital visits and another 20 to 40 million ill.
- In the same range as the CDC, the journal *Nature* reports that a third of all Americans will be hit by the flu if it breaks out this year.
- The Associated Press reports the U.S. is far behind some countries in preparing. France, for example, has enough medication to mitigate the flu for half of its population, meanwhile the U.S. only has enough for 1.7% of its population.

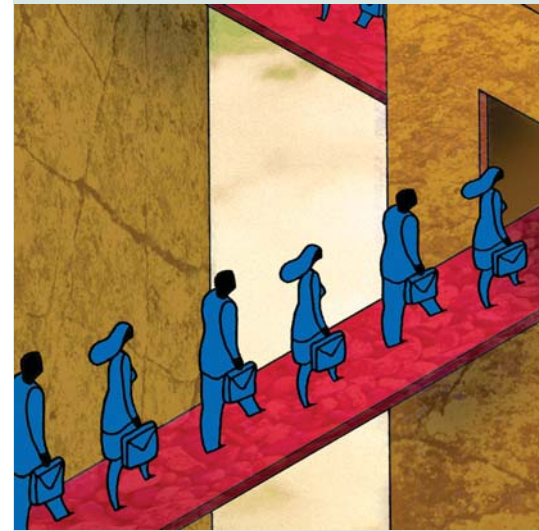
Commercial implications

- “Anything we say before a pandemic happens feels alarmist. Anything that we have done once a pandemic starts will seem inadequate,” says Mike Leavitt, U.S. Secretary of Health and Human Services (HHS). “We’re at a greater risk of a pandemic than at any time in decades. We are overdue, and we’re under-prepared.”
- "Travel bans, closings of schools and businesses and cancellations of events could have a major impact on communities and citizens," according to a HHS document. "Care for sick family members and fear of exposure can result in significant worker absenteeism."
- The WHO predicts “high rates of illness and worker absenteeism are expected, and these will contribute to social and economic disruption... (which will be) greatest when rates of absenteeism impair essential services, such as power, transportation, and communications.”
- International Monetary Fund (IMF) says there would be a “sharp decline in output,” and certain “permanent effects on the labor force” – diplomatic-speak for deaths. Nonetheless, the IMF predicts it’s likely that the effects will pass rather quickly.
- Less sanguine, the Brookings Institute’s “mild” scenario produces a \$US330 billion hit on the global economy. On the high-end, the fall in GDPs globally will be 13 times greater.
- The U.S. government deems the potential to be menacing enough to have arranged with two or more other countries to print U.S. currency should the U.S. Printing Office not be able to function.

The fact is. . . *no one knows* when it will happen, what the scale will be, or how long it will last. *What is clear*. . . is that almost all organizations worldwide will be affected by a pandemic’s toll on human capital as early as this winter or sometime in the coming years.

Some organizations will be particularly challenged by the combination of changes in product demand and talent availability (*up and down the chain-of-command*) – all in the context of a global economy that will probably nose-dive for a few months. . . or be stalled for as much as two years.

Here then is an outline for leaders wishing to take stock of these possibilities.

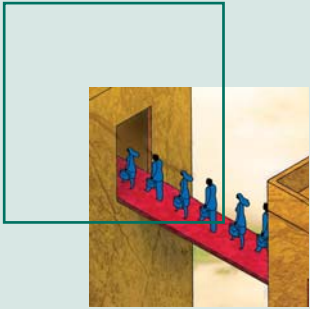


Social Responsibility

Overlaid on the crisis will be very difficult questions about your organization’s social responsibility to customers, employees, and communities in which you operate.

It probably will take a series of executive team or board meetings to sort out the boundaries of this issue.

The answers will, in part, define your enterprise’s intent, level of effort, and priorities both before and during the crisis.



What is the right level of effort?

In addition to the matter of social responsibility, the core consideration is determining how much is at risk – economically speaking – so you can decide what effort and intensity are appropriate.

Some organizations may quickly stipulate in their minds or on the back of a napkin that the consequences of not acting are far more painful than the necessary costs to prepare.

Others may prefer formal risk assessment – to determine systematically what the enterprise risks are.

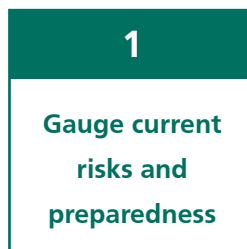
Overview

Different business models, with their respective human capital strategies, in various regions will have unique risks. Travel-related businesses, for example, will face a major downturn. Many health care organizations will have more business than they can handle – whether it's producing vaccines, medicines, rubber gloves or masks. Of course, hospitals and clinics will be overwhelmed. Either extreme – and almost everything in between – demands urgent attention.

There are three major steps to prepare and mitigate the effects of a pandemic:



A **Crisis Management Team [CMT]** should be formed immediately (if one doesn't already exist). Membership should represent leaders and specialists from key units and functions who would be in pivotal decision-making positions when the pandemic breaks out (knowing that some top executives and members of the team will not be available during the actual turmoil). If the CEO doesn't chair the group, it should minimally report to the CEO. The CMT will guide the corporation through the following preparation and execution steps.



Concepts / points-of-view

To chart the course of contingent actions, executives need to know where they really stand right now.

Many organizations have tackled certain business continuity issues – mainly around executive safety. . . and power and technology backups. A few have been in a major planning mode about the full-range of risks and contingencies for a year or more. Most, however, have not systemically worked their way through all aspects of the subject.

Representative process steps and actions

The preparation begins with a systematic assessment of the current, risks and levels of preparedness.

Factors to be evaluated:

- core financial strength
- security of human and capital assets
- customer demand patterns
- supply chain / logistics
- infrastructure – facilities, IT and power-backups
- labor market supply / trends
- leadership profile
- key talent requirements
- internal workforce dynamics (e.g., level of routine turnover)
- related HR policies and practices – from health and short-term disability plans to criteria and protocols for lay-offs and shut-downs
- workforce communication – leadership messaging, communication, crisis preparation and disaster training
- state of employee relations and, in particular, the level of job satisfaction (as a marker of commitment – especially for trying times)

Outputs – current risks and preparedness

This step produces a current systematic characterization of all of the salient issues that come into play in a disaster like a pandemic.

2

Forecast possible scenarios

Concepts / points-of-view

No one can predict the future with certainty, but – with reasonable assumptions and statistical modeling – the future can be forecasted fairly well. Such perspectives provide you with scenarios with which to plan and prepare.

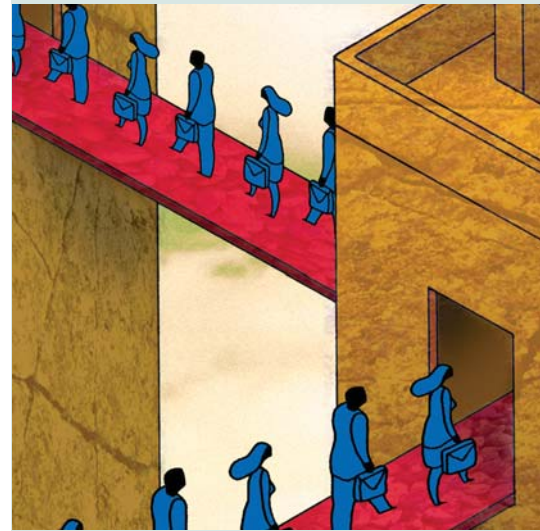
Representative process steps and actions

The forecast covers:

- Product and service demand for the organization's different business lines and regions
- Operations obstacles, e.g., supply chain reliability
- Other logistical implications
- Workforce consequences – ranging from sheer availability (leaders, managers, specialists, very hard-to-replace people) to job commitment (level of effort someone is willing to make to get to work and put in a decent day's work)
- Bottom-line implications – by units and regions – during and after the crisis

Outputs – forecasting

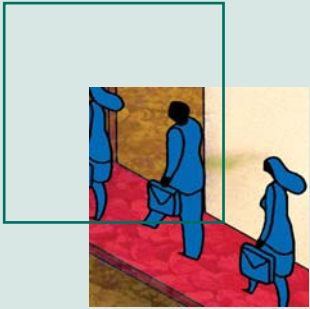
This forecast defines the likely pandemic-related challenges confronting your organization.



Organization-specific analyses

The right facts about the right issues are crucial here and throughout this organization-specific process.

This is not a benchmarking exercise – context is everything and each organization must find its own way.



3

Plan / execute necessary actions

Concepts / points-of-view

This is where the solutions which may define the success of the organization for years to come emerge.

The key process actions are:

- **Sum up the gap analysis** created by Step 1 (current risks and preparedness) and Step 2 (possible scenarios) – therefore identifying the largest risks and gaps. At that point, you will know – systemically, empirically, and reliably – what needs the most attention. Just getting this far will put you ahead of most organizations.
- **Plan and make changes which are necessary to have in place before the crisis.** These actions will most likely span a wide range of strategic and tactical issues – from assuring corporate finances as properly robust to cross-training people for critical jobs. Such preparation will almost always provide a organization with a competitive advantage – whether there is a pandemic or not.
- **Plan the contingent actions which will be triggered by the pandemic.** These actions may be largely tactical, but they will have strategic results. Examples would range from bolstering security to putting communication media online – produced well in advance – which will provide vital information for customers and employees (and perhaps even the community).

So this is where you can create a true competitive advantage – one that not only guarantees your survival but preserves your financial standing, burnishes your brand, bonds with your customers and solidifies the loyalty of your key people.

Business continuity in the face of a pandemic hinges on:

- Financial strength
- Operational flexibility and effectiveness
- Customer service
- Employee commitment

All four are needed, but nothing happens without the latter – including the continuity of effective leaders and pivotal talent.

Representative process steps and actions

At this stage, your staff specialists and/or outside experts can begin to drill down to determine what the challenges are as well as the opportunities to create a competitive advantage out of the otherwise daunting situation.

Major topical areas follow:

Financial Strength

Concepts / points-of-view

A global pandemic will create shocks to individual businesses and the overall worldwide economy.

Enterprises with sound financial positions going into the crisis are more likely to emerge far stronger than less “fit” organizations. (The concept of “fit” and adaptive organizations has been advanced over the years and extended beyond the financial arena by scholars such as Richard Beckhard and Michael Beer.)

Prudent actions now could be the difference between the extremes of faltering or even collapse. . . and an exceptional recovery.

Representative process steps and actions

Boards, executives, and CFOs need to think intensively about their positions – given their respective risk profiles. (We have already encountered at least one major Fortune 500 organization that believes it will have to layoff virtually all employees as soon as possible to avoid bankruptcy.) Forward-thinking enterprises will evaluate their debt and cash reserves and begin making the necessary changes.

Operations Flexibility And Effectiveness

Concepts / points-of-view

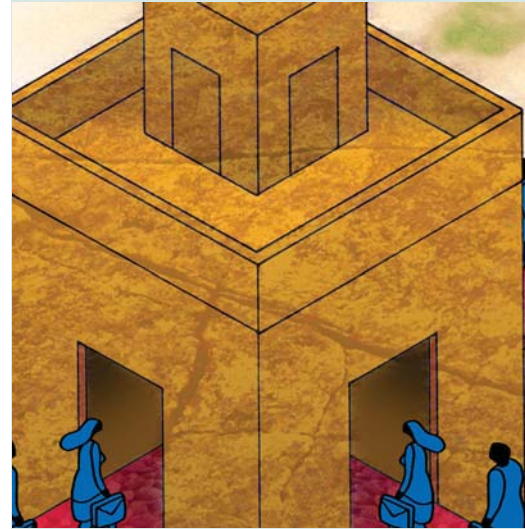
Things look different – fast – in a widespread disaster.

All manner of civil and commercial operations are in turmoil. Incoming materials will be disrupted. Some orders will be cancelled. Out-going logistics will be less reliable.

There will be widespread absence. Sheer labor capacity will be problematic.

At a time in which unflinching leadership is required to take the enterprise through the crisis, some of the key leaders may be out of the picture. Not only may the chain-of-command be shaken, but in a social catastrophe, questions of governance and control can quickly surface.

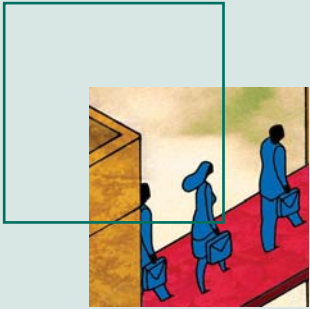
The organization needs a set of scenarios and responses to those respective possibilities.



Securing assets

In a catastrophe like a pandemic, all kinds of assets are at risk – people, physical assets, perhaps the enterprise itself.

Global experts in risk management are needed to map strategies to protect all of those assets.



Different approaches

Legitimate strategies for different kinds of organizations will vary dramatically. While some will struggle mightily to keep up with the intensive demand for certain services and goods, others may simply choose to shut everything down for several weeks to minimize infections until things stabilize. It all hinges on your business model(s), customer demand and the scope of the pandemic.

HR will be heavily burdened

In most organizations, leaders will look to HR for everything from filling labor gaps to providing crisis support to employees. Like other key functions, HR must have its own subset disaster plan. Most importantly, HR needs a consensus with the executive committee in advance on key parameters – so crucial actions can be executed without revisiting every policy in the “heat of battle” (e.g., leave, health, disability, compensation, etc.). Also, if HR has a lean staff, it must cross-train people for key jobs.

Representative process steps and actions

These scenarios should be defined at several levels – low, medium and high impact – by percentage changes in key factors such as sales, productivity and talent.

Contingencies would need to be developed for each scenario.

Decision guidelines and tentative actions would be defined and modeled for various dynamics – certainly the ones of highest priorities.

Issues to be addressed include:

- What are the **contingencies for executives and key managers** who are out of action? What is the selection and succession process for key players? Is the organization willing to consider ad hoc leaders based on knowledge and abilities vs. any history of authority?
- What are the **critical operations, processes, points of security** that absolutely have to be maintained? How do you assure them and back them up?
- What kind of missing **key talent** – specialists or hard-to-replace people – would exacerbate the crisis? How can the organization cover for their loss?
- What might **local or regional governments** do to disrupt the flow of people to work (e.g., no non-essential travel)? Can the organization create work-arounds?
- How could delayed deliveries to **customers** be mitigated?
- When would certain operations or functions be **merged or suspended**?
- How will employees **returning from “hot zone” locations** be dealt with?
- When and how would **employment levels** be reduced?
- What happens to **pay or benefits** under various scenarios?

Examples of operational actions

For almost all organizations

- Adjust corporate governance policies for certain pro tem actions (where, for example, board or executive team quorums aren’t available).
- Cross-train certain people to cover key jobs which must be staffed no matter what.
- Create a crisis health and sanitation plan which heighten cleaning protocols in the workplace and addresses other issues such as dealing with infected employees at work, stockpiling protective and cleaning materials, and assigning ad hoc teams to certain special hygiene tasks.

For some enterprises

- Create a succession process where the first tier would be a pool of named-in-advance candidates, but the company needs to be prepared to shift to more adaptable situation-specific criteria and methods.
- Stockpile medicine which might mitigate the flu for employees and their families.
- Identify all key leaders and critical-job holders, plot their addresses on area maps and lay out possible shuttle bus routes for clusters of such essential talent (arrange options to lease vans or buses in advance).

- Train employees in advance about the implications of a pandemic; condition their expectations for what they may face as well as what the organization's challenges will be; provide them with health and safety tips for home and work, preparation checklists – perhaps even issue them kits with certain supplies. *NOTE: this training will raise tough questions you need to be prepared to answer.*
- Create a website that could be put on-line immediately as a primary communication channel to customers, employees, and other stakeholders. A comparable phone system is also desirable – especially in certain regions.
- Prepare to offer – especially if things get rough – special incentives, perhaps in stages, to those who make their way to work (but take care not to motivate the sick to come in).
- Contract in advance for specialized support, e.g., security, crisis assistance and maybe contracted RNs for large facilities.
- Get your HRIS and workforce intelligence systems upgraded to the point you can track attendance and status – particularly of key leaders and specialists – across all operations in real time.
- Buy radio or TV time to communicate with customers and employees if internet and phone systems are disrupted.

The best of plans will have to change as shifting or unexpected circumstances emerge. Criteria and guidelines for such ad hoc decision-making should be defined in advance. Conditioning people for those necessary actions through effective leadership messages is part of the preparation.

Customer Service

Concepts / points-of-view

Organizations with strong brands and market share will consider the means necessary and appropriate to preserve their standing with customers through the trials of the crisis.

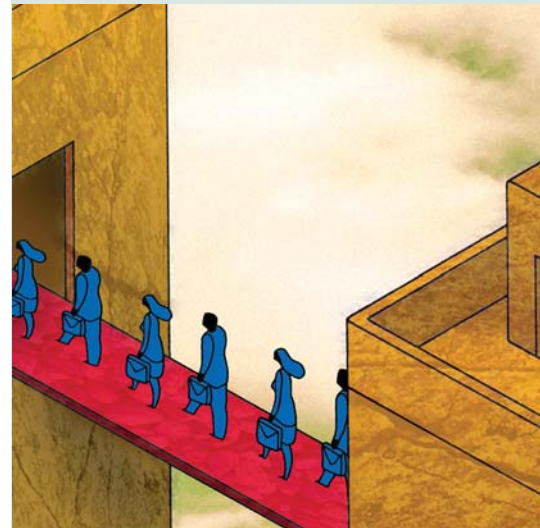
Conversely, smaller players could potentially win new customers by virtue of how they prepare and execute in the hard times.

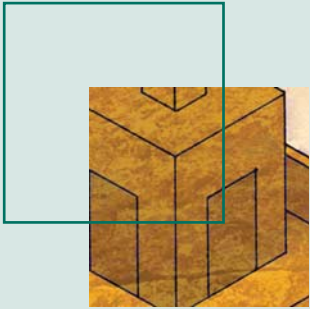
Representative process steps and actions

Like the operations people, marketing, sales and public relations leaders need to lay out levels of contingent actions – depending on the possible circumstances.

Organizations will have to decide in advance about their social responsibility to their customers, employees, and communities.

Customer actions may range from special services or gestures offered to customers to broader-based actions that show the organization as concerned and generous with its various communities around the world (for example, supporting disaster relief groups, charities, and hospitals).





Some of what your people will face

As you might anticipate, the health care system will be completely overwhelmed. Some hospitals may erect large tents in their parking lots – to segregate flu victims; many will simply turn away patients because of a combination of being filled up and/or not having enough staff to provide care.

(Conversely, some patients may not be permitted to leave.)

For this and other reasons – shortages of food, water, medical supplies – civil unrest will certainly be a problem in many regions.

A basic communication action example

Many organizations will develop a crisis communication web site that remains “dark” until you need to put it on-line. (In some regions of the world, the same concept would apply to a phone system or radio broadcasts.)

A large portion of the content can be developed ahead of time so that it’s ready to go. If the pandemic occurs, you can quickly fill in the details and launch the site.

Having reliable and alternative communication lines to the workforce –on the web, by phone, and through supervisors and other key personnel – is essential.

Employee Commitment

Concepts / points-of-view

While workforce staffing issues are addressed above (under “Operations”), the state of the workforce – its mindset and commitment – warrants a special category.

We often talk about employee commitment to and engagement in the enterprise. That, of course, is a chicken-or-egg phenomenon – especially in a disaster.

Employee commitment is a function of practices and policies of the organization and is also influenced by direct managers.

Think of each employee – from top executives to security guards – making a periodic, if not daily, calculation of whether it’s worth going to work in the face of his or her own anxieties about the community turmoil, infection risks, and the personal stress at home. That on-going decision-making would, of course, become even more profoundly difficult when there are sick or dying family members or friends.

While some organizations may be tempted to cut payroll costs in what for many will be a real downturn, all should cautiously evaluate the long-term impact of such a decision. Their future – even their brand standing – may hinge on how they choose to deal with the exhausted-but-okay, sick and dying employees. (That’s why the “Financial Strength” factor is pivotal.)

In their own self-interest, organizations should take steps to protect, support and encourage their workers.

Representative process steps and actions

To sustain employee commitment and engagement, two major arenas should be addressed – both well in advance of and during the crisis.

1. **Communication:** A comprehensive strategy and planned actions should be in place for communication with all stakeholders – senior executives, managers at all levels, employees in key jobs, employees working remotely, etc.

The organization should see itself as the pipeline of information to its people – more reliable than almost any other source.

Employees will look to their enterprise for credible, accurate alerts, updates, and advice not only about working conditions, policy issues, and other directives, but also about the progress of the disease, health risks, public safety, and other personal concerns.

Candid, timely communications will be critical to managing the workforce and maintaining business operations during a pandemic.

Leaders at all levels will particularly need daily updates, assistance with key messages, and defined channels for problem resolution.

2. **Employee support:** The various communication tactics are the first wave of employee support – aimed at maintaining a linked, cohesive organization and overall engagement.

All of this is fundamental to preserving long-term commitment and literally getting people into work at some point.

As mentioned, everyone will be making daily decisions about the risk and rewards of staying engaged with their organizations and making their way to work.

The necessary and appropriate signals from organizations will be crucial to the desired outcome.

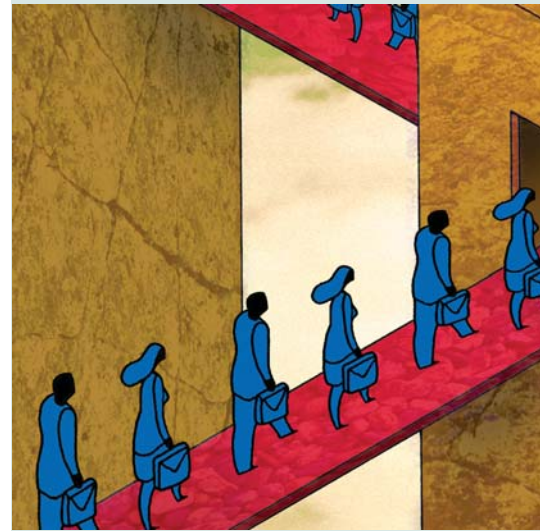
Outputs – action planning

Action plans with detailed priorities for different major business units, functions and geographies should address four fundamental issues – Financial Strength, Operations Flexibility and Effectiveness, Customer Service, and Employee Commitment – and related considerations.

Summary

Executives today face the question of whether or not to act now. The answer lies in knowing to what extent your organization is ready to just survive or ready to emerge with a distinct competitive advantage. The key to success in minimizing pandemic damage and optimizing future performance are to:

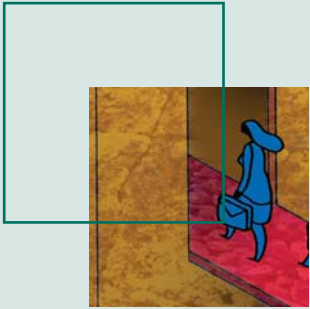
- analyze your current capabilities, risks, and readiness (know where you stand)
- forecast likely scenarios for a pandemic (know what you face)
- prioritize, plan and act now – by major units, functions and geographies
- make the necessary strategic and tactical decisions now that will speed your recovery and generate a true competitive advantage



Employee support action examples

- having workshops in advance and providing employees with check-lists of supplies to stockpile (face masks, disinfectants, canned food and water)
- doing whatever is possible within reason to support their employees and their families
- providing Tamiflu or Relenza to employees and, for obvious reasons, potentially to families members too
- offering crisis counseling (contracted for in advance)
- having arranged transportation services for key people and emergency situations authorizing regional leaders – within specified protocols – to spend significant money to support their people with exceptional circumstances

Richard A. Guzzo, PhD, Rosaline Chow Koo, Lea Peterson, Luis Fernando Parra, PhD, and Heather Tennison offered valuable input and feedback to this paper.



Expertise and Support

Kroll / Marsh / Mercer Delta / Mercer HR / Mercer Management

We understand that

- different enterprises require different solutions
- some organizations have already done notable planning and/or have the time and expertise to do a fair amount of the work themselves.

We can support you as broadly or narrowly as you wish – from leadership counsel and ad hoc specialized-content expertise to facilitating or guiding the analysis, planning preparation, and execution throughout.

We can help you to not only mitigate the effects of a pandemic but to emerge as a stronger competitor with a lasting market advantage.

(The simple, obvious fact is that there will be winners and losers in your industry – based almost exclusively on how you prepare and execute in the face of such a crisis. The concept of corporate “fitness” as an indicator of future success has never been more important.)

Worldwide, we have an incomparable mix of experts in business strategy, finance, operations, marketing, security, risk management, workforce strategies, communication and HR to provide you with globally-integrated resources to support your efforts in this challenge.

Using expertise gained through decades of optimizing the performance of organizations, minimizing risk, managing and communicating large-scale change, developing workforce strategies and helping organizations plan for and cope with disasters (like SARS), these units from the Marsh & McLennan Group can, together, provide unprecedented analyses, guidance and solutions so you can emerge from the crisis stronger than competitors.

Support and action examples

- Our financial analysts can forecast the macro and micro economic factors which will affect your organization in a pandemic.
- Our risk management resources can gauge everything from financial stability to health issues.
- Our industry, CRM, marketing, and brand management colleagues can predict likely demand levels.
- Our strategy and operations people can characterize production, supply chain and logistics hurdles.
- Our global security experts can assess all dimensions of your human, physical and economic capital protection preparations.
- Our health experts can help plan and contract for on-site mini-clinics for those requiring diagnoses, treatment or temporary quarantining.
- Our HR consultants can audit pertinent policies and practices and offer guidance on the appropriate contingencies.
- Our workforce strategy practitioners can measure key dynamics of your workforce and determine patterns which may influence the situation in a crisis.
- Our communication colleagues can identify target groups, assess information and training needs and create a strategy outlining key messages, processes, channels and protocols to reach those within each group.

Argentina

Australia

Austria

Belgium

Brazil

Canada

Chile

China

Columbia

Czech Republic

Denmark

Finland

France

Germany

Hong Kong

Hungary

India

Indonesia

Ireland

Italy

Japan

Malaysia

Mexico

Netherlands

New Zealand

Norway

Philippines

Poland

Portugal

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