CAIIB
Module-E Unit-5

Human Resources Management

CAIIB HRM Module E Unit 5- Leading in a 'VUCA' & 'BANI' Scenarios: New Approaches In 'Crisis Management'

Crisis

- A **sudden and unexpected event leading to major unrest amongst** the individuals at the workplace is called as organization crisis. In other words, crisis is defined as any emergency situation which disturbs the employees as well as leads to instability in the organization.
- **A crisis is typically**- High impact, Low probability, Unexpected and Unique. Three elements are common to a crisis: a threat, a surprise and a short decision time.
- Sudden crisis are characterized by their immediate onset. They tend to be unanticipated and escalate very quickly, often as a result of a severe triggering event or incident that may be out of the organization's control. Whereas, Smoldering Crisis are those for which the common feature is that impact on the organization and its stakeholders grows, sometimes undetected, over a period of time, while indicators of potential crisis are possibly missed, denied, ignored or misunderstood.

Some of the common sources of crisis are:

- Natural disasters
- Cyber attack
- Failure of Technology
- Organisational mis-deeds
- Embezzlement or Financial crimes
- Failure in Supply chain Mechanism
- Safety scare
- Staff issues
- Issues of disclosure.

Crisis Management

- **'Crisis Management'** is defined as an organization's pre-established activities and guidelines for preparing and responding to significant catastrophic events or incidents in a safe and effective manner. It is a set of strategies and processes for dealing with unexpected negative situations.

Essential Features of 'Crisis Management'

Effective crisis management requires four basic elements. They are:

- Clearly identified team roles and responsibilities,
- A formal incident assessment team and process,
- Effective Incident Action Planning (IAP) skills and Effective crisis management
- Team communication.

The other critical characteristics of 'Crisis Management' are:

➢ Crisis Management includes activities and processes which help the managers as well as employees to analyze and understand events which might lead to crisis and uncertainty in the organization.

➢ Crisis Management enables the managers and employees to respond effectively to changes in the organization culture.

➢ It consists of effective coordination amongst the departments to overcome emergency situations.

➢ HR plays a crucial role in evolving, leading, executing and monitoring all Crisis Management strategies and plans in organizations.

➢ Employees at the time of crisis must communicate effectively with each other and try their level best to overcome tough times.

Four-levels of 'Uncertainty': Strategies To Manage

Level 1: A Clear-Enough Future

- At level 1, managers can develop a single forecast of the future that is precise enough for strategy development. Although it will be inexact to the degree that all business environments are inherently uncertain, the forecast will be sufficiently narrow to point to a single strategic direction.

Strategy to manage Level 1 Uncertainty

- To help generate level 1's usefully precise prediction of the future, managers can use the standard strategy tool kit—market research, analyses of competitors' cost and capacity, value chain analysis, Porter's five-forces framework, and so on. A discounted-cash-flow model that incorporates those predictions can then be used to determine the value of various alternative strategies.

Level 2: Alternate Futures

- At level 2, the future can be described as one of a few alternate outcomes, or discrete scenarios. Analysis cannot identify which outcome will occur, although it may help establish probabilities. The possible outcomes are discrete and clear. It is difficult to predict which one will occur. And the best strategy depends on which one does occur.

Strategy to manage Level 2 Uncertainty

- Level 2 situations are a bit more complex. First, managers must develop a set of discrete scenarios based on their understanding of how the key residual uncertainties might play out. Getting information that helps establish the relative probabilities of the alternative outcomes should be a high priority.

- After establishing an appropriate valuation model for each possible outcome and determining how probable each is likely to be, a classic decision-analysis framework can be used to evaluate the risks and returns inherent in alternative strategies.

Level 3: Range of futures

- At level 3, a range of potential futures can be identified. That range is defined by a limited number of key variables, but the actual outcome may lie anywhere along a continuum bounded by that range. Companies in emerging industries or entering new geographic markets often face level 3 uncertainty.

Strategy to manage Level 3 Uncertainty

- A set of scenarios needs to be identified that describes alternative future outcomes, and analysis should focus on the trigger events signaling that the market is moving toward one or another scenario.
- Since it is impossible in level 3 to define a complete list of scenarios and related probabilities, it is impossible to calculate the expected value of different strategies. However, establishing the range of scenarios should allow managers to determine how robust their strategy is, identify likely winners and losers, and determine roughly the risk of following status quo strategies.

Level 4: True Ambiguity

- At level 4, multiple dimensions of uncertainty interact to create an environment that is virtually impossible to predict. Unlike in level 3 situations, the range of potential outcomes cannot be identified, let alone scenarios within that range. It might not even be possible to identify, much less predict, all the relevant variables that will define the future.

Strategy to manage Level 4 Uncertainty

- Managers can identify patterns indicating possible ways the market may evolve by studying how analogous markets developed in other level 4 situations. Although it will be impossible to quantify the risks and returns of different strategies, managers should be able to identify what information they would have to believe about the future to justify the investments they are considering. Early market indicators and analogies from similar markets will help sort out whether such beliefs are realistic or not.

VUCA - Gravity- driven Approach To 'Uncertainty' And 'Crisis Management'

- **VUCA refers to - 'Volatile, Uncertain, Complex and Ambiguous.** VUCA represents a set of challenges that individuals, teams, managers, and organizations in affected industries all have to face.

Characteristics & Approach of a 'VUCA' Scenario

Acronym	Characteristics	Examples
V = Volatility	This refers to the speed of change in an industry, market, or the world in general. It is associated with fluctuations in demand or turmoil. The more volatile the world is, the faster the things get changed. The challenge is unexpected or unstable and may be of unknown durations, but it is not necessarily hard to understand.	Commodity pricing is often quite volatile. Illustration is jet fuel costs have been quite volatile in 21st century.
U = Uncertainty	This uncertainty is associated with people's inability to understand. Uncertain environments are those that do not allow for any predictions to be made. The more uncertain the world is, the harder it is to predict the future. Lack of knowledge as to whether an event will have meaningful ramifications. Cause and effect are understood, but it is unknown s to whether an event will create significant changes.	Anti-terrorism initiatives are generally plagued with uncertainty; we understand many causes of terrorism, but not exactly when and how they could spur attacks.
C = Complexity	This refers to the number of factors we need to consider to make more efficient decisions, their veracity and the relationships between them. More the factors, the greater their variety, and the more interconnected they are, the more complex the environment.	Doing the business in many geographies -all with unique regulatory environments, tariffs and cultural values.

Acronym	Characteristics	Examples
A = Ambiguity	This relates to the lack of clarity about how to interpret something. It's not about analyzing a large amount of data; it's about doing advanced analytics for the right KPIs. Casual relationships are completely unclear and no precedents available. A situation is ambiguous, for example, when information is incomplete, contradictory, or too imprecise to draw clear conclusions.	Deciding to shift to an unknown or emerging markets/ business and/or to launch the products in which no core competencies available. The transition from print to digital media has been very ambiguous; companies are still learning how customers will access and experience data and entertainment given new technologies.

Enormity of 'VUCA' Environment

Some of the negative effects of a VUCA environment are:

- It can destabilize people and make them anxious about the future which in turn affects the organizational culture adversely.

- It can undermine the employee motivation and frustrate their career movements thereby devastates individuals and the organizations at large.
- It necessitates constant training on acquiring new skills, knowledge and attitudes.
- Managing VUCA scenario requires good amount of precious time and effort thereby endanger long-term projects and innovations.
- It involves occasional chances of making inappropriate decisions thereby adversely affects the decision making processes and patterns.
- It can destabilize the organization and affects its business as the people may tend to passively leave the organization for greener postures outside.

Leadership Strategies to Manage 'VUCA' Scenario

Counter 'Volatility' with Vision

- Organizations should accept and embrace change as a constant, unpredictable feature of its working environment without resistance.
- Leaders should encourage and motivate the teams with the spirit of achieving it together and inclusively.
- Leaders should ensure that resources are aggressively directed towards building slack and creating the potential in terms of acquiring more talents etc. for future flexibility.
- Leaders should ensure that where volatility is relatively high, the team spirit and inter-personal relationships between individuals should be at the peak levels.
- Leaders and managers should concentrate on evolving and establishing robust communication channels by and between all stakeholders so as to ensure seamless flow of communication and consultations.

Address Uncertainty with Understanding

- Leaders and manager should ensure a robust mentoring programmes which should solely focus new approaches and prospects that are likely to attract new, young and creative talents.
- Leaders should lay more emphasis and priority to new and contemporary learning endeavours which can harness the skills and new insights of the people.
- Leadership should also focus on planning new business ways and strategies to help minimize possible uncertainties.
- Leadership should ensure periodical environmental screening in order to eliminate uncertainty.
- Information is critical to reducing uncertainty. As such, leaders should steer their organisations to move beyond existing information sources to both gather new data and consider it from new perspectives.

Respond to 'Complexity' with Clarity

- Leaders and managers should ensure simplification of each work processes as a most important step to address the complexity issues.

- Leaders need to be aware of social networks within the organization that are often stronger than the hierarchical order. As such, the organisations should evolve and institutionalise a transparent and effective social network policy with required checks and balances.
- Effective communication channels, well-designed decision making policies, empowerment schemes, efficient organisational structures which fosters faster communications across the organisations etc are essential prerequisites to counter the interlocked complexities.
- Leaders need to have the flexibility and tolerance to think in contrast and 'out-of-box' and to encourage such inverse thinking abilities among the people
- Restructuring internal company operations to match the external complexity is the most effective and efficient way to address complexity.

Overcome 'Ambiguity' with Agility

- Leadership should promote flexibility, transparency, adaptability and agility in all their activities.
- Leaders should hire, develop and promote key talents who have blend of interest and are able to thrive in VUCA environments and have critical and innovative thinking skills.
- Leaders should encourage the people to be versatile in all areas of working by providing them the right and timely opportunities to work in all other areas of business through periodical but meaningful job rotation and cross training.
- Leaders and managers should encourage the every member to widely debate, dissent and generate new and innovative ideas
- Experimentation is necessary for reducing ambiguity.
- Leaders should suitably reward team members who demonstrate vision, understanding, clarity, and agility.

'BANI' Approach In Crisis Management

- **'BANI'** has been coined by **Jamais Cascio** to explain and deal with the new normal created by challenges like Global Warming, COVID-19 pandemic and also such unforeseen crises in future. BANI stands for **Brittle Anxious Linear Incomprehensible.**

BANI = Brittle:

- In a scenario of brittle or frail, we cannot predict or predetermine beyond a particular point. The idea is that we are susceptible to catastrophe at any time, and all businesses that are built on fragile foundations can fall apart overnight. In a BANI world, a brittle system may work well on the surface while being on the verge of breaking down for good.
- In a world in which everything is interconnected, a disastrous failure occurring in one country may cause a ripple effect all over the planet which made the normal life more difficult and severely affected the global businesses and trade. Our

critical systems are essentially interwoven, and they do not have automatic solutions to address such disaster situations.

A = Anxious:

- Anxiety caused by continuous changes in our personal and professional life as well. This anxiety can lead to passivity when you feel that changes are an avalanche and that there is no way to influence them.
- In an anxious world, people - Watch for the next disaster to happen, Tend to become passive to avoid potentially wrong decisions altogether, feel desperate about missed opportunities and face the terrible gut feeling of depending on someone who may very well make decisions with negative consequences for them. We deal with what we call 'fake news' on a daily basis. Incorrect depictions enhance the pent-up emotions listed above, and they add to the ubiquitous anxiety in all spheres of life.

N = Non-Linear:

- In turbulence, we live in a world whose events seem disconnected and disproportionate. Without a well-defined and standardized structure, it is not possible to make structured organizations. The disconnection and disproportion between cause and effect leads to non-linear situation.
- There is a great difference between the scale at which things occur and the scale at which we perceive them. Therefore, detailed, long-term planning may no longer make sense as cause and effect is no longer assessable in advance.
- For instance, the current pandemic has introduced an unprecedented crisis in terms of scale, scope, infection, and mortality rates – and this fight will go on for another couple of months, probably years. The same patterns of non-linearity apply to the climate crisis.

I = Incomprehensible

- Non-linear results of any given cause, events, and decisions often seem to lack any kind of logic or purpose – they are incomprehensible. We cannot grasp the cause because it may have been long gone or it may appear too appalling.
- Misunderstanding is generated when we find answers, but the answers don't make sense. So we need to understand that we don't have control over everything. It is important to note that we may not predict or understand numerous aspects as of now. However, future technologies and synergy effects (human brain + technology) will most likely render many things comprehensible.

Strategies to Deal with 'BANI' Scenario

- As the BANI creates a feeling of fragility, the best way to adapt and grow is by strengthening the teams with enough resources – in terms of human, finance and skills etc.
- Brittleness can be addressed with resilience, flexibility and alternative plans and systems.

- Anxiety can be addressed with awareness, empathy and mindfulness. Dealing with anxiety requires more empathy. Hence, training employees in soft skills, which will become increasingly essential in times to come
- In a non-linear world, rigid plans tend to be a burden on business and hence, constant innovation and creativity in product and services and ways of doing business are very crucial.
- Incomprehensibility can be addressed with transparency and intuition.

## Fink's Model of 'Crisis Management'

Fink's Crisis Model
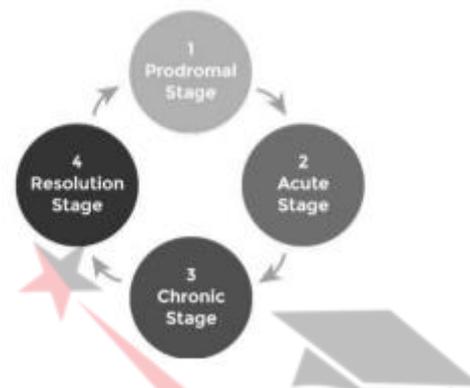
- In his famous book Crisis Management: Planning for the Inevitable (1987), Steven Fink, who is one of the leading experts in crisis management and crisis communications, and a true pioneer in the field, laid out a four-stage crisis model consisting of the **prodromal, acute, chronic, and resolution stages.**
- **Prodromal stage:** here, the role of a crisis management professional is not reactive, but a proactive approach. In this stage, crisis managers attempt to identify an impending crisis. This stage covers the period between first signs and crisis eruption. Crisis managers should be proactively monitoring, seeking to identify signs of a brewing crisis, and trying to prevent it or limit its scope without getting the crisis enlarged. Actions taken during the prodromal stage can easily be placed into the pre-crisis stage of the three-stage model as they address an organization's crisis prevention.
- **Acute stage:** Fink advocates that the actual crisis event begins with a trigger, during what he refers to as 'the acute stage' which is the second stage of this Model. This phase entails activation of crisis managers and their plans. This stage is characterized by the crisis event and resulting damage. The severity of the crisis and damage are influenced by the success of the prodromal stage.
- **Chronic stage:** The third stage of Fink's model is the 'chronic stage'. This stage refers to the lasting effects of the crisis such as - after a flood or a hurricane when teams address damage to buildings and roads. Although individual crises may have occur anytime, but the lasting effects of the incident can extend the lifecycle of the crisis.
- **Resolution stage:** This stage identifies a clear end to the crisis and it is a time for introspection as to what went wrong through a root-cause analysis and implementing changes to ensure there is no repetition.

Burnett's Model of 'Crisis Management'

- Burnett identifies both tasks and factors that compromise the ability of an organization to practice crisis management. The author cited four factors that inhibit crisis management viz., **time pressure, control issues, threat level concerns, and response option constraints**. Burnett claims these factors, found on the outer-ring of the model, disrupt an organization's ability to focus on and strategically manage a crisis situation.
- Burnett divides the model's six step inner-circle into three categories: **identification, confrontation, and reconfiguration**. **The 'identification' step is composed of goal formation and environmental analysis** – the preparation for the crisis. '**Confrontation' encompasses strategy formulation and strategy evaluation** – the point when an organization is involved in the crisis. Lastly, **'reconfiguration' includes strategy implementation and strategic control** – how the organization adapts to crisis intervention.
- This model also follows a progression like the other lifecycle models. The steps in Burnett's model are - **goal formation, environmental analysis, strategy formulation, strategy evaluation, strategy implementation, and strategic control.**
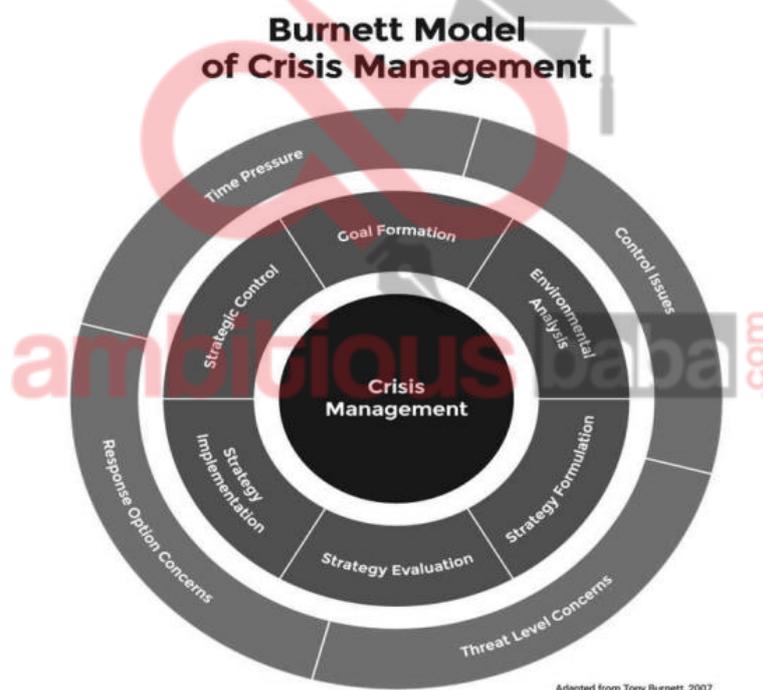
Mitroff's Five-Stage Model of 'Crisis Management'
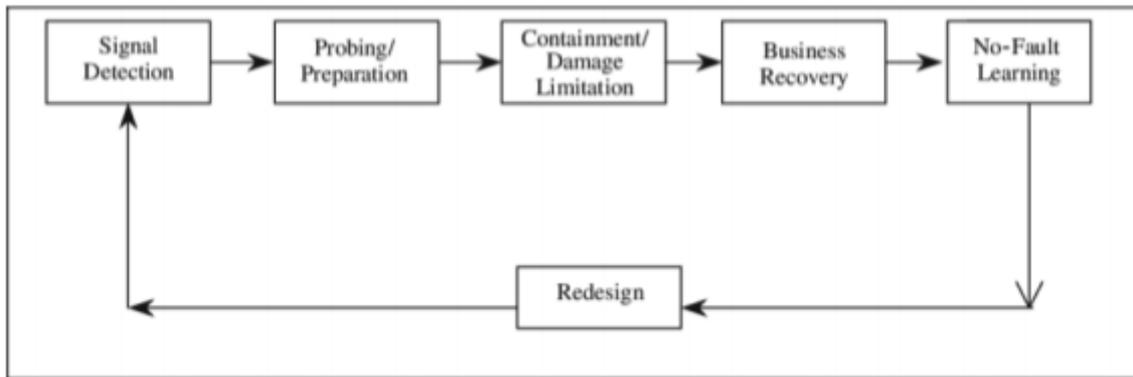
- Mitroff was one of the first researchers to recognize that, due to resource limits, preparing for every conceivable kind of crisis is impossible. He noted that crises tend to fall into certain categories, which Mitroff called clusters, such as breaks or defects in equipment, external actions, and threats (product recalls).
- Mitroff developed a model that divides crisis management into five stages: **signal detection, probing (ie., looking for risk factors) and prevention, damage containment, recovery, and learning.**
- **The first two stages – 'signal detection' and 'probing and prevention'** – encompass the proactive steps an organization can take before a crisis event. 'Signal detection' identifies the signs of possible crises within an organization.
- **The last three stages of Mitroff's (1994) model – 'damage containment', 'recovery', and 'learning'** – feature slight variations from Fink's (1986) acute, chronic, and resolution stages. Like Fink, Mitroff's stages discuss the trigger and containment of the crisis event, the arduous task of returning to the pre-crisis norm, and the resolution of the crisis event.
- **'Damage containment'**, focuses on the steps taken following the crisis event. A relationship can be made between damage containment and the crisis stage of the three-stage model as they both involve actions taken in response to the event.

Role of HR in 'Crisis Management' Process

- HR has moved beyond the common roles viz., Hiring, Welfare, Industrial Relations etc. to more complex roles that directly influence the performance of the organization. Crisis management is among the areas of management in which the HR is expected to participate in, with a view of ensuring that employees needs, during and after a crisis, are given consideration during the development of crisis management plans.
- The HR has an impacting role in crisis management through planning and training to ensure employees are capable of navigating through turbulent times. The role of HR in crisis management is to enhance preparedness among personnel and thus ensure effective disaster planning. At another level, as a custodian of employee-wellness, the HR has an important role to play in ensuring that human capital within the organization is protected and that employees can continue to provide value for the organization beyond the crisis.

Crisis Management Planning

- This is the stage through which an organization makes plans on how to deal with crises, including crisis prevention, impact reduction, and crisis recovery. Crisis management planning enhances organisation's ability to deal with crises and ensures faster recovery when an organization is faced by a crisis.
- Crisis management planning is an imperative process in crisis management because it provides guidelines on preventing or averting crises, dealing with crises and the recovery process.

Crisis Communication & Employee Relations

- The HR has key responsibility to ensure that employees are aware of vulnerabilities and potential threats. This involves identifying and communicating all possible threats within and outside the organization to the employees.
- Effective communication ensures that employees are physically, emotionally, and intellectually prepared, such that it becomes easier to handle the crisis.

Crisis Management Process & Policy

- HR is typically responsible for conceiving, evolving and implementing and periodically updating policies and procedures governing employee conduct and organizational procedures pre, during and post crisis period. This would include acting as the repository for the crisis management plans and procedures.

Training and Talent Development

- Training and talent development provide employees with knowledge and skills necessary to enhance the recovery process. Crisis management training for management and key personnel is a critical component of effective crisis management.

Promoting Employee Involvement and Motivation

- HR has the responsible role to garner and promote greater employee involvement in the entire process of crisis management so that the crisis management plans and procedures

Influencing organizational culture

- The HR can influence culture within the organization, with aspects such as – robust and transparent communication and information channels, employee empowerment, transparent decision making and responsibility patterns, effective leadership capabilities and flexibility in approaches etc being emphasized as effective tools to overcome the crisis timely.

Employee Assistance and Benefits Programmes

- HR departments of the organizations organize employee assistance programs to support them psychologically and to enhance motivation. When required,

outplacement procedures like rotational transfers and skill-based placements etc, may also be implemented.

- Coaching and mentoring programs may be some other options to be promoted in order to recover and maintain employee morale and motivation properly. This is not only necessary for the business and employees but also for the families of those workers.

Leadership Role in 'Crisis Management'

- Leaders should lead from the front and willing to take high risks, complete charge of the situation and responsibility.
- Leaders should counsel the employees not to get panic at the time of crisis. Leaders should interact with the employees.
- Leader should be able to feel the early signs of crisis and warn the employees against the negative consequences of the same.
- Leaders must strive best to prevent crisis. They should encourage effective communication at the workplace.
- Leaders should identify the important processes and systems which should keep functioning for the smooth running of the organization. They should develop alternate plans with accurate information.
- Once the organization is out of crisis, it is the leader's duty to communicate and discuss the key take-aways and the lessons learnt so as to enable the employees to avoid committing same mistakes again.

Employees' Role in 'Crisis Management'

- They should be proactive to review their performance periodically on their own and to strive hard to achieve the targets set by the organization.
- Employees must be able to sense the early signs of crisis and warn their fellow workers against the same and communicate to seniors.
- Employees should encourage and ensure effective communication during crisis situations. They should try to generate innovative ideas.
- They should not spread and/or encourage baseless rumours, grapevine or unfounded information about their organization
- It is essential for the employees to respect and be loyal to their organization. They should not enter into unnecessarily fight or find fault in their co-workers.
- Employees should maintain their cool and calm and should avoid to get hyper as, stress and anxiety lead to more mistakes one might not otherwise commit.

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