

A new era calls for a new model

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In September, one of us was looking at the ravages of Hurricanes Katrina and Rita, while the other was in China discussing the potential impacts that the eruption of a new flu pandemic could have on dozens of other countries. Though these two events are distinct in several aspects, they are also similar in their fabric as the new types of crises to be faced. As such, they embody a fundamental challenge: a qualitative jump from local to global risks.

Two dimensions have to be considered. First, a new scale in destruction. Beyond the human tragedy, Hurricane Katrina is the most costly event in the history of insurance worldwide (at \$50 billion to \$60 billion, more than the total insurance payments for the terrorist attacks of Sept. 11, 2001, and for Hurricane Andrew in 1992, the two previous record holders). It is also the event that has mobilized the most federal aid provided in the wake of a disaster: \$60 billion, and more is to be expected.

The other dimension is a growing interdependency. The increasing competitiveness and globalization of economic and social activities are being tied together with just-in-time processes and interconnected operations. That has bred a new type of risk: interdependent threats, which will require coordinating complex multi-actor decision-making.

The hurricanes had immediate impacts and will have long-lasting collateral effects on several markets outside the United States (including oil, gas, airline and, of course, insurance).

Similarly, the SARS episode in 2003 was not a Chinese-only crisis: In less than three months it affected 30 countries. The 9/11 terrorist attacks were not exclusively a U.S. crisis either, as illustrated by new attacks in Madrid, London and Bali.

We have been studying crises for years, but this is a whole new ball game. Most people can deal with well-known risks that could have a local impact. As a result, most crisis management tools developed over the past 20 years are based on the outdated assumption that risks are always formatted: i.e. that it is possible to list all untoward events that could happen, determine their probability based on past experience, and measure the costs and benefits of specific mitigation measures.

But the hallmarks of the current brave new world include more and more unthinkable events, new contexts we have not seen before and the pressure to react extremely quickly, even under ignorance of the impacts such actions will have.

The time has come to be creative. A first step is the recognition that the challenges of large-scale risks and crises have become vital strategy and policy issues for major stakeholders (firms, governments, nongovernmental aid organizations and the media). Then, the key might lie in the ability to imagine and act more collaboratively, as both the official inquiry into mad-cow disease in Britain and the 9/11 Commission in the United States made very clear.

Some positive examples?

In the aftermath of the 2001 anthrax crisis, which raised fundamental questions on the security of postal services worldwide (real cases or thousands of false alerts), we suggested launching an international debriefing process. Our strategic goal was to establish some identifying hallmarks to help postal operators at the highest executive level to manage the new arena of emerging vulnerabilities, and further, to define and test innovative collective action to address global-scale issues. Although initially undertaken for a few postal operators (in Britain and France), executives rapidly stepped in from postal services in the United States and more than 25 countries in Europe, as well as from international trade associations.

This initiative had quantifiable results (for example, the creation of a global Web-based alert and information-sharing platform) and was viewed as a groundbreaking opportunity by participating decision makers.

The platform passed its first test the very day it became operational, with a new anthrax alert in the Washington area.

This initiative also reinforced trust - a crucial element when collectively preparing to face the unknown. We urge similar collective actions to be launched systematically after each major destabilization; this is the only proven way to be better prepared to cope next time.

Rather encouragingly, we have observed an important move over the past few years: Better than leaving risk managers to tackle these issues alone, a number of companies have recognized their strategic aspect and have now put them on their board agendas. International organizations, like the Organization for Economic Cooperation and Development and the World Economic Forum in Davos, Switzerland, have now also made these large-scale risk issues a priority in their future action plans.

These new initiatives could lead others to act as well and, eventually, tip a whole new way of managing these events.

In his famous "Art of War," written some 2,500 years ago, the great thinker Sun-Tzu explained how war is not merely a question of emergency, but rather of knowledge and encompassing strategy. The same can be said of today's emerging crises. As they are very likely to modify the global fabric of our future, a new "Art of Crises" is urgently needed.

The 2005 hurricane season in North America was just the latest signal. Could avian flu be next?

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