

***American Chamber of Commerce Webinar - Mitigating Risk for Companies During the Coronavirus – February 27, 2020***

Michael Hickman, Principal, Integrity Risk and Crisis Management consulting practices for the Greater China and North Asia at Control Risks Pacific Limited

Kent Kedl, Senior Partner of Greater China and North Asia at Control Risks Pacific Limited

Ling Jin, Director of Control Risks Pacific Limited

**Many unknowns:** Epidemiology, infection rate, mortality rate, asymptomatic transmission are all unknown.

**Still early days for the pandemic:** New cases in China seem to be slowing considerably. But now the virus has gone global. If you don't already have a global crisis management team working on this you are late to the game.

**Big effect on China supply chain.** Worst case in most contingency plans is that 1 or maybe 2 suppliers go down. This is an entire national supply chain that is down. Everybody trying to get back on their feet. Trying to get factories up and running. (Service sector – can work from home. Offices more or less ok.) China is the epicenter of the virus and nerve center of the global supply chain. China is more important in some areas: health care, pharmaceuticals, automotive. Both supply chain and end buyer have been damaged. This is some way from being over. Now is when it's getting serious.

**Re-opening factories has been the challenge.** Local authorities – who have power now to make the decision on when plants can open – are nervous. If Covid-19 spikes in their neighborhood or district, their heads are going to roll. Local authorities are supposed to get the economy going but also protect health. Political tensions quite real. E.g., one client required 10 days for government approval to get people on site. We also see a wide variety of other issues for factories. Workers not showing up. Electricity intermittent. Suppliers aren't there. Everyone focused technically. Operational concerns.

**Getting information is a challenge.** Sometimes not getting responses from suppliers. Do they have government approval, electricity, workers, what are they hearing from their suppliers?

**Shipping, ground transportation** is one of the biggest challenges. Trucks – difficult to travel between cities, provinces. Truckers worried about being refused entry to a locality or being caught up in a quarantine situation. Ground transportation is very expensive--10-20 times normal costs.

**Need to work with suppliers:** We're all in this together. Do suppliers need financing, lengthened terms? People who have gotten on top of this – supplies, hygiene, etc. can help suppliers. This is an opportunity to forge long-lasting bonds that will outlast the crisis.

**Effective country HQs in China or HK can manage more proactively and real-time.** Some Western HQs are too slow to react and their decisions are wrong and/ or outdated. Need to let local teams manage.

**Social media challenge.** Must shut down infodemic. Robust social media makes Covid-19 era different from SARs. Not helping, to say the least. Companies that manage information flow to employees, stakeholders, and suppliers are ahead of the game. Social media challenges: Worst thing you can do is react to news. Social media in China quite unhelpful. You need to have a unit to bring all this stuff together and do the analysis and come up with a single source of truth as a company.

Give comfort to employees and suppliers and say this is the decision, the truth as we see it now, this is how and why we are acting. Both good and bad info can come from everywhere.

**Government.** Those with close relationships with local governments are ahead of the game. There is palpable fear out there.

**Contingency plans.** Got a call from a company that is sourcing \$2 billion from China and had no contingency plan in place. No crisis management plan at all. Companies say that after this is over they need to do serious self-criticism about how well this went or didn't go. Lots of people already were looking at reducing dependence on China. That can be part of the planning. More informed risk assessment should result.

**Recovery:** How do we plan for recovery? During SARs, many were too focused on managing through the crisis, stopping the bleeding, so that when the fog lifted, the threat just kind of faded and we said 'what do we do?' It took us a number of months to get going. You need a crisis team solely to focus on the crisis. Set up a separate recovery team. What are customers going to want? Everyone knocked off their growth plans. How will this affect competitors? We will be managing business impacts throughout 2020. Supply chain and logistics impacts will be huge. SARs – clear bounce, after period of economic weakness that preceded the epidemic. Not clear if that will happen post-Covid-19 or not.

**Will aviation and hotels be forever changed?** Tourism and travel are probably hit the hardest and will take the longest to recover. It will recover to a different level. People needed to get out. We're going to come into a new world.

**Opportunities:** Food safety, nutraceuticals. Health. Manage risk so as to be more sustainable, resilient. Opportunities in providing safe travel, wellness travel. Cannot be so in your box that you don't see these opportunities. Stick with partners; work with governments. Food safety – double down and work with local food safety authorities on training, when possible with other companies, too. Keep clean and safe. Recovery team informs crisis team of that.

**Sustainability, resiliency, ethical behavior:** Pressure to grow revenue may make bribery tempting. Spike in unethical activities after the virus wanes. Companies will want revenue and some will do unethical things to get it. Ethical organizations are sustainable and more stable. Spike in investigations business after SARs. People didn't look at distributors and these sorts of things. FCPA and jail – got hit. Chinese authorities now serious about food safety, cyber-issues, environment, corruption. Part of the 30-year strategy. Must maintain compliance in China, part of a broader sustainability effort.

Resiliency is the challenge. Are companies sustainable, are they resilient? Where are they starting to fall apart? Lazy, not managed with single-source suppliers. Crisis brings weaknesses to the front. Companies need to be looking at that and doing analysis. Personal issues – schools closed. How can we help our employees as individuals, with their family and personal stresses (schools closed, for example), to manage through the crisis? Can companies address these concerns?