

The impact of coronavirus on business:

A macro risk management perspective

by

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Traditional risk management theory is based on the premise that risks can be mitigated or controlled. However, it is also important to address macro risks in the broader environment. These risks are difficult to control at best and impossible to control at worst. A macro risk is a risk caused by uncertainty in the external environment that is beyond your control and that may have a negative impact on the performance of your organisation. The coronavirus pandemic is a good example of a macro risk because it is difficult to control the risk. It affects business, government and society at large.

But you may now ask: If these risks are uncontrollable, why discuss them at all? While they are most certainly difficult to address, the fact remains that these things will happen, and when they occur you need to deal with them, even if it means that you go into crisis management mode. During a crisis, you cannot ignore the risk, you are then forced to deal with the consequence of possible disaster. That is the reason why government intervened and decided to implement the Disaster Management Act and its regulations in an attempt to manage the disaster. Also, the stronger your resilience for dealing with the first macro risk you encounter, the better the chances that you will be ready for handling new macro risks.

Having said that, and within the spirit of a positive risk mind-set, some of these risks may require risk transfer strategies as is the case with insurance, or the combined effort of multiple stakeholders to address the risk. That is the reason why we are on a daily basis addressed by Ministers from different portfolios. All these Ministers are responsible for the governance of different government departments dealing with different aspects of the risk, such as the police, defence force, health, social development and transport. A multidisciplinary response is needed in view of the fact that the whole society is impacted by the pandemic.

Another way of dealing with macro risks is to attempt avoiding it. For instance, if terrorism is a higher risk in certain countries, you can simply avoid those countries. However, given the fact that macro risk is uncontrollable and unpredictable, terrorism may spread to some of the most peaceful countries in the world. Thus, you can never be absolutely sure that you are safe or protected from macro risks. It was impossible for any company director before the 9/11 bomb attack at the World Trade Centre to could have known that large parts of their

workforces would be wiped out in a terrorist attack. Similarly, no one could have predicted that people on the Malaysian airline would disappear on 8 March 2014. However, after almost a whole management team of a top South African company was killed in a plane crash a few years back, the company made a decision that top managers would not use the same flight in future. To respond to this macro risk, other companies followed this example and implemented similar risk management plans pertaining to the protection of top talent.

However, risk cannot be avoided completely. The recent customer data and system hack at Nedbank is a case in point. Surely, Nedbank had robust risk controls in place, yet hackers are getting more sophisticated. A similar incident happened at the Liberty Group a few years ago.

The Covid-19 virus spread so rapidly that it was declared a pandemic by the World Health Organisation and governments were asked to intervene at a national, regional and global level. It required such drastic measures that entire countries had to be locked down. Different countries responded in different ways. Some decided to adopt more cautious approaches, such as the UK, USA and Italy while others such as China, South Korea and Germany adopted stronger measures. Interestingly, there has been a sharp increase in the number of cases in countries with more cautious approaches, while the countries with more drastic measures are the only ones that have managed to flatten the curve, albeit with varied degrees of success. As reported by eNCA, the epicentre of the virus, the city of Wuhan in China has been so successful in bringing the number of new cases down that they are open for business again. South Korea's approach has been slightly different by resorting to mass testing of people. The South African government has now decided to also pursue mass testing.

While companies need to be aware of macro risks, the reality is that a macro risk could become a micro risk. In other words if you don't respond to macro risks, or simply ignore it because you don't think that it will affect you, it could put your business and country at risk. Problems left unattended, procrastinated on or poorly addressed become risks over time. In fact, many of the HR risks typically identified at many companies started off as macro risks (for example HIV/AIDS), and eventually they manifest itself within organisations and therefore become internal HR risks. If a customer or supplier or visitor to your office enters your premises with the coronavirus he or she was infected with from an overseas visit or locally, this virus can spread throughout your company. It can then be passed on from one family member to another and escalate throughout the country. That is the reason why South Africa has also been locked down. The SARS virus (also a type of coronavirus) a few years back is a good example of a virus entering a country and becoming an epidemic overnight. The swine flu virus and Ebola virus are two examples of a virus running wild within weeks. When it becomes clear that is unlikely to contain its spread, it is declared a pandemic resulting in major national and international responses. A clear philosophy of dealing with macro risks requires a more holistic and integrated perspective on value chains.

In the past, too many stakeholders were only concerned about their specific contribution in their part of the value chain, hence the need for a national response in the form of a lockdown. Thinking and planning for critical hand-over points require a deeper understanding of the consequences of your work. Thus, not only is a much clearer approach needed to map

complete value-chains across organisations, i.e. approaching work from a supply-chain perspective, mapping and optimising the roles of different stakeholders in and across value chains becomes essential for effective risk and disaster management over the long term.

All organisations face macro risks, because all organisations operate within the broader external environment where these risks emanate from. Over the years we have seen several such examples. An example of a micro risk escalating to a macro risk has been experienced at several public hospitals such as the medical faculty of the University of Free State. The situation was so bad that the cardiology department could collapse with serious consequences for the provision of specialised medical services in the province. The department was at risk of not being able to train doctors due to the fact that there were few lecturers left. Staff blamed management for the manner in which the training hospitals were managed. A lack of specialised emergency equipment exacerbated the problem. It was feared that patients' lives could be at risk if the problem was not resolved. As a risk management intervention, negotiations have been initiated with private cardiologists to provide additional capacity for the department (Rapport, 2014). Should the situation not be addressed, the provision of cardiologist services in the province could be at risk, and if private cardiologists are unable to alleviate the problem in a sustainable way, a major talent attraction plan focusing on attracting cardiologists from other provinces or countries may be required. Sadly, similar situations have been experienced in other provinces such as Kwazulu-Natal where there were at one stage only a handful of doctors who could treat patients in specialised areas such as cancer. Unfortunately, these cases are not exceptions, but the norm in the public health system, hence the fear that the health system is likely to collapse if the coronavirus pandemic gets out of hand. Already the health systems in Italy and Spain cannot cope with the numbers and several doctors and nurses have been infected with the virus, and many of them have died. Italy responded by using doctors from Cuba to assist with the staff shortages.

The typical response from many business leaders is that external issues have nothing to do with your job at hand. However, the Human Resource (HR) competencies "duty to society" and "citizenship for the future" of the South African HR competency model requires HR professionals to think much wider than narrow self-interest. While HR professionals are primarily concerned about the people inside the organisation, you can no longer ignore the people and environment outside the organisation. The coronavirus crisis affects all of us, because the continuous failure to address emergency responses becomes a risk for society if poor service delivery is perpetuated. If thousands of people are hospitalised because of the virus, and sufficient medical supplies and protective equipment is not provided, and the safety of health staff and patients is compromised the health system and indeed the rest of the country will collapse.

Against the backdrop of global and local uncertainty, HR professionals and business leaders need a good understanding of Covid-19 as a macro risk requiring drastic measures. We would like to encourage business leaders to increase their awareness of macro risks and then to identify appropriate responses in a more proactive way. This is the time for business managers to learn from disaster management and risk management experts. Business

leaders need to respond quickly and then decide on actions for dealing with macro risks as it affects their organisations, industries and the country. The reality is that traditional internal value chain thinking will not suffice in dealing with the current crisis. Even retailers now need to see hospitals as part of their value chains. Woolworths responded positively this week by donating money to hospitals.

Now is the time for business and government leaders to collaborate like never before. Yes, we need to get through the lockdown and then rebuild the economy and country like never before. Our response to the coronavirus is also a good test for our resilience, not only during the disaster, but also thereafter. We will learn many lessons that could be useful in future. Dealing with the coronavirus pandemic as a macro risk will help companies to move beyond the narrow self-interest used in the past, by elevating your thinking, behaviour and actions to a new level of collaboration and united action in the interest of preserving humanity.

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