

A LEADERSHIP FABLE ON RISK, RESILIENCE,
AND PROTECTING ORGANIZATIONAL CAPABILITY

GREAT LEADERS — PROTECT — POTENTIAL

Protecting Business Capability through
a Commonsense Approach to Risk Management



LEADERSHIP
CONTINUITY



CYBER
READINESS



SUPPLY CHAIN
RESILIENCE



OPERATIONAL
STRENGTH



CULTURE
AND ETHICS



DISRUPTION



UNCERTAINITY



LOSS



FAILURE



CRISIS



TOLD THROUGH THE DAY IN THE LIFE OF A NEW CEO

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The following was adapted by a Risk Manager

Billy Joel's "We didn't start the fire" is an inciteful reminder for the study of organizational risk ... "It was always burning, since the world's been turning."

We did not start the fire. No, we didn't light it, but we tried to fight it ... OPEC Oil Embargo (1973–1974), Persian Gulf War, triggered by Iraq's invasion of Kuwait (1990-1991), Savings & Loan crisis (1996-1999), Dot-com bubble burst (2000), 9/11 Terrorist Attacks (2001), U.S. housing bubble burst (2008), the Great Recession of 2007-2009, COVID-19 pandemic (2020-2022), Global supply chain crisis (2021–2023), America's labor shortage (2000-2021), Russian invasion into Ukraine (2022), Hamas's terrorist attack on Israel (2023), U.S. Election Frenzy (2024)...?

"We didn't start the fire."¹

Forward

There are thousands of articles and books on why companies fail. The answer, however, is far simpler than experts would have you believe. Companies primarily fail due to a lack of sufficient working capital or cash flow. The more important questions to answer are what caused the impact on working capital, and how it could have been prevented.

A great leader protects his or her company's capabilities for delivering value (i.e., products and services) to customers. To continue to survive and thrive, the company must continually seek out new ways to provide value to its customers or else risk becoming obsolete and replaced. To do this, the company must continually improve its capabilities for driving value in the most efficient and sustainable manner. One of the key elements to successfully safeguarding this value is careful risk management.

Risk management is far too often viewed as separate from business and strategic planning. Yet, risks and opportunities are two sides of the same coin. Risks (or adverse impacts) to the generation of the products and services that the company provides must remain a top priority for all leaders. Also, leaders should view risk management as an opportunity to continuously improve their capabilities to deliver products and services are the essential ingredients of sustained success.¹

Risk management can help provide the critical business intelligence on how and where the business should improve and seek new and expanded capabilities to better service customers... before a competitor does. Effective risk management is essential for not only protecting the company's current capability to generate and deliver value to customers but potential for continued growth.

Great Leaders Protect Potential is told through the life of a newly appointed Chief Executive Officer, David Davidson. Davidson soon discovers in his new role of leading the American Spring Company the importance of being prepared for risks that could damage the company's performance, position with its customers, and future potential. The story takes the reader on a trip across the common risk pitfalls that successful organizations need to protect against.

¹ Capabilities are the abilities (e.g., systems, processes, knowledge) and capacities to transform inputs to outputs, generally expressed as products and services.

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PART I – IT’S NEVER GOOD TIMING

David Davidson had waited for this day most of his professional life. After graduating from the Ohio State University’s business school, it was his life’s ambition to one day run a company. The past twenty-some years, he had sacrificed evenings and weekends with his families, missed ball games and concerts to work the extra weekends and take on the projects that no one else would. Davidson hoped that all his hard work and dedication would one day earn him the top post. That day came three days ago with the unexpected heart attack of the company’s founder and CEO, Harry Neverstopt. The board of directors took little time deciding that Davidson was the right leader for the job and voted unanimously to appoint him as President and Chief Executive Officer. However, he wished he were assuming the mantel of leadership under different circumstances, but he knew that the company needed his leadership following the unexpected loss of their founder.

Davidson had been hired by the American Spring Company just two months earlier at the board’s insistence to add another senior level leader to the company after Neverstopt turned sixty-seven. He had more than twenty years in manufacturing and had held every job from line supervisor to plant manager to Chief Operating Officer. His appointment came as no surprise to both the management team and employees. He had been informally tagged as the heir apparent to supersede Mr. Neverstopt, ‘the legend’ when he eventually decided to slow down.

Davidson was barely five foot ten inches but somehow the way he carried himself, he seemed much taller. His military presence was difficult not to notice. He had served the first ten years of his career with the U.S. Army as a paratrooper with the 82nd Airborne Division at Fort Bragg, North Carolina. He was a graduate of the U.S. Army Ranger program at Fort Benning, Georgia and served as an infantry platoon leader and company commander before exiting the military for a career in manufacturing. Davidson still had most of his brown hair which he kept cut short, another carryover from his days in uniform. His eyes were almost black and often made the person he was talking to feel a little bit uncomfortable. To those that did not know him, he came off pushy and a little too intense for some people’s liking. But once you got to know him, you knew that he would do anything to help you and the company. Even though he had been at the company for only a few months, his staff felt the same, they would do anything for their new boss.

Although Neverstopt was sixty-seven when he died, no one saw it coming. He had the same tenacious bulldog spirit as he did when he first started the company in a friend’s garage forty years earlier. The American Spring Company had grown from a single die machine to one of the region’s largest and most successful privately held manufacturers. The company boasted that their coil springs were inside every automobile seat in the United States, Canada, and Mexico. The company proudly boasted that their springs were used in NASA’s space shuttles and in the U.S. Navy’s nuclear submarines.

Sitting behind the large cherry office desk, Davidson could not help but feel proud of all that he had accomplished. The fancy installment ceremony to the company’s top post yesterday was still fresh in his mind as he surveyed his new corporate surroundings. It still seemed surreal

... having all happened so fast. His plans to work as an understudy to Neverstopt for several years before assuming the role were unexpectedly altered. Davidson knew that he had some very big shoes to fill ... and fill quickly.

The celebratory honeymoon came to an abrupt halt early Tuesday morning with a call from the security desk. As it was only a few minutes past six in the morning, his administrative assistant, Marla, would not arrive for another two hours. The security guard said that a Mr. Smith had an important package for the President that had to be delivered in person. It took a few minutes for Davidson to negotiate around the early morning cleaning crews to reach the security office. The gentleman who waited to see him was dressed in a well-tailored charcoal grey business suit, white dress shirt and a red and blue striped tie. He was young but carried himself with a confidence that conveyed he was more senior than he appeared.

As soon as he saw Davidson approach the security counter, the visitor asked, “Mr. Davidson?”

“Yes, how may I help you?”

“Mr. Davidson, CEO and President of American Spring Company?”

Becoming slightly more irritated, Davidson responded in an increasingly suspicious tone, “Yes. One and the same.”

Smith handed Davidson a brown envelope, and said, “Mr. Davidson, my name is Kyle Smith with the law firm of Brown and Gerobe. We are representing Mrs. Neverstopt. Inside the envelop you will find instructions directing you and the board of directors to an emergency meeting tomorrow afternoon to discuss my client’s decision to sell the company.”

“Sell the company ...? Mr. Neverstopt never mentioned anything about selling the company.”

Adeptly bypassing the question, the young lawyer quickly added, “This is Mrs. Neverstopt’s formal notification per the operating agreement to sell her majority interest in the American Spring Company. Please have your corporate counsel contact our office before the day’s end. We will see you and the board tomorrow afternoon, promptly at 2:00pm. Oh, and have a nice day.”

The conversation lasted less than two minutes. Standing there looking down at the brown envelope, his mind began racing through all the potential courses of action and decisions he would need to make. The sale of a controlling interest in the company to the wrong party, a competitor, or even a large conglomerate for that matter, could ruin everything they ... that he ... had worked so hard to achieve.

He proceeded back to his office, stunned at how quickly the tide of fortunes could change.

Although he had met the young Mrs. Neverstopt only once before being hired, it never occurred to Davidson that his former boss would leave his controlling stock to her total discretion. The scandalous affair between the past president and the young accounting temp had stunned the entire corporation, not to mention his first wife of forty-five years. Although the board of directors had asked Mr. Neverstopt on a half-dozen occasions to develop a formal succession plan, he merely waved them off, saying he planned to govern until he was ninety. Davidson

himself raised the issue during the interview process, but Neverstopt and the board assured him that America Spring's legacy would continue long into the future.

He could kick himself now for not pushing the issue harder before signing on. One of Davidson's earlier concerns had come back to bite him; not only was there no succession plan, but no buy-sell agreements to protect the company from an unfavorable sale by the president's estate. Davidson contacted the chairman as soon as he got back to his office and asked for an emergency board meeting to discuss how to best proceed and prepare for tomorrow's meeting. In the meantime, he would alert the company's corporate counsel to contact Ms. Neverstopt's attorney and start researching what rights he and the other shareholders had.

The twenty-eight-year-old spouse of the former president of the company did end up selling her shares of the American Spring Company. Following an offer from the company's main competitor, the board authorized Davidson to enter into an agreement with the company's lenders to finance the purchase of all her outstanding shares. The transaction consumed most of the company's available liquidity, delaying a much-needed upgrade of one of their older production lines. He would not have the revenue impact from his Chief Financial Officer or CFO for several days. He knew there would also be contract delay penalties from postponing the project, but there was not much he could do about it. The loss of available cash would also impact an important air permit compliance upgrade that had been promised to the state EPA from the previous year's emissions findings report. He would need to talk with the Director of Environmental, Health, and Safety (EH&S) and their environmental attorney to 'hopefully' negotiate an extension with the state's regulators.

The events of the past few days had been a hard lesson for the new corporate leader, but one that would never be repeated on his watch. They had weathered their first crisis, but it could have, should have, been avoided. He would hold a meeting with the Board of Directors and their corporate counsel to develop a formal succession plan and establish the necessary buy-sell agreements to protect the company. Also, Davidson planned to work with his executive team to develop succession plans for mitigating the impact from the untimely departure of other key people.

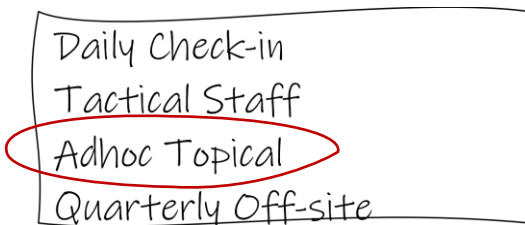
First Official Executive Team Meeting

As Davidson looked around the long conference table in the company’s Strategy Room, he addressed his team, “I had hoped to start our weekly executive team or staff meetings under other circumstances, but this is as good as time any. I trust everyone has read the ‘The Four Meetings’ article by Patrick Lencioni I sent yesterday?² It was a quick but powerful read, just like his books *Death by Meeting* and *The Five Dysfunctions of a Team*.^{3,4} Davidson grabbed a dry erase marker and headed to the whiteboard at the front of the room and listed the four types of meetings. “Anyone wants to volunteer to name the four different types of meetings.”

His CFO, Anna Walker, said, “The article listed four different types of meetings, Daily Check-ins, Tactical Staff Meetings, Adhoc or Topical Meetings, and Quarterly Offsites.”

Anna had been with America for the past twenty years, having joined the company soon after graduating with an accounting degree from Miami University’s The Farmer School of Business. She had worked her way from a staff accountant to controller, then to heading up the newly formed FPA or Financial Planning and Analysis (FP&A) teams before being offered the top post. Anna was slightly over five foot eight inches, the tallest of her five sisters, and had been Miami’s volleyball squad. Having never married, she spent her time between several gold leagues and serving as a ‘Redcoat’ or usher at Cleveland’s Playhouse Square.

“Thanks Anna!”



Davidson circled the Adhoc Topical meeting and said, “Today’s meeting is considered an *Adhoc Topical* meeting where we tackle a critical issue impacting the company’s success. The keys to success will be to stay on topic and have thick skin so we can wrestle with some difficult issues. Oh, and these meetings require good preparation in advance to make them effective.”⁵

“I am still a little confused on differences between the Adhoc Topical, Tactical Staff, and Quarterly Offsite meetings?” asked Anna.

“The weekly *Tactical Staff* meetings are meant to focus on our scorecard and key performance indicators or KPIs. They help us to stay on track with our goals. Also, we can use these meetings to resolve obstacles to our progress and deal with time sensitive issues. In contrast, we use our *Quarterly Offsite* to get more ‘meaty’ things accomplished, like annual objectives and goals. For example, I can see us in the very near future conducting an offsite to develop strategies for improving our capabilities to provide value to our customers.

“Our weekly *Tactical Staff* meetings will be on Mondays starting at 12 noon. Marla will order lunch for the group. Please block off ninety minutes on your schedule. The only acceptable

excuse for missing our meetings is if you are on vacation. Got it?" All heads nodded acknowledging the new CEO's guidance had been sent and received.

"Back to today. As you are aware, the last couple of days have been roller-coaster. Fortunately, the chaos was limited to the executive level, like it is supposed to be. You have seen the memorandum for record from our corporate counsel discussing the changes in equity ownership, so there is no sense rehashing that information. I want to use our time to discuss succession planning."

Nick raised his hand to get Davidson's attention and asked, "Do you mean having back-ups for key leaders?"

"That is good a definition, Nick. For our purposes we need to add just a little more clarity to the definition. Succession planning is a process for developing talent to replace key leaders and staff if they were to become unexpectedly unavailable. Their availability could be caused by many factors including medical, personal reasons, work performance issues, etc. The reason for the sudden lack of availability is less important than having talent ready, trained, and available to assume key roles. While everyone who works for American Spring is a valued colleague, there are a handful of individuals whose sudden departure could seriously damage the company. And remember this includes the staff, not just owners and position leaders."

Davidson looked at his Vice President of Engineering and asked, "Jim, whose loss would seriously hurt the company?" Jim Kettling was a graduate of Purdue University's mechanical engineering program and headed up the company research and product development department. He was a slender, fair skinned man that started shaving his head not long after leaving the West Lafayette campus. Kettling was an avid cyclist and could be seen making the twenty-some mile trek to and from home on his Italian made Pinarello touring bicycle. Jim had two grown children, both in engineering programs. His son was a senior at his alma mater and his daughter a freshman at the University of Cincinnati.

It did not take long for him to answer, "That is easy. It would be Rich O'Donnell."

Everyone was aware of the key role that Rich held in the company as its senior product innovator. His name is on most of the company's patents. He is considered the primary source of American Spring's innovation and product development for the past twenty years.

"Could not agree more. Unfortunately, Rich is pushing sixty and it looks like we have not done a great job of building depth behind him." Kettling thought it wiser not to answer because he knew how right his boss was.

Next Davidson pointed to Andrew Burkey, the company's Chief Information Officer or CIO.

"Drew, it is your turn. Who's untimely departure would hurt? And remember, departure does not always mean death or by being hit by the beer truck. They could win the lottery or receive an inheritance. We cannot predict what might happen in the personal lives of our employees." Andrew, who went by Drew, was a thick, stout man with a receding hairline that made his round face look chubbier than it really was. In sharp contrast to his technical acumen and profession, Drew spent most of evenings as a Medieval reenactor. Proudly displayed on the corner of his

desk was a photograph of Drew in his full Viking battle dress to include his homemade broadsword.

“My vote would be Frank Kaspick. He is the only one on my staff who knows where all the bodies are buried. Until we can upgrade our legacy ERP system...hopefully in my lifetime, Frank is critical.”

“Lloyds of London, take out an insurance policy, type of critical risk?” asked Davidson.

“Unfortunately for the near-term, irreplaceable, so yes, a huge risk! We have tried to mitigate the risk by assigning two new software engineers to work with Frank. But because the code is so poorly documented, it is a tedious and slow process. By the time they get up to speed, we will hopefully be on a system.”

The group smiled at Drew’s shameful plug for funding for a system upgrade which had been a drum that he had been constantly beating since being hired by America Spring five years ago.

“The new system cannot get here soon enough,” said Anna.

Davidson asked, “Who’s next?”

His Chief Operation Officer who oversaw all production facilities spoke up.

“This is a tough one.”

“That’s why we get paid the big bucks Tim!”

Tim Peck was a former hockey player for the University of Michigan. At six foot four inches, barrel chested, he walked with a slight limp from taking one too many slashes on the ice. However, his personality was the opposite to his imposing physical presence. He was by far the most analytical leader on the executive team. Davidson knew that it took time for Tim to process and communicate what he was thinking. But when he did, the results were always profound and helpful. Tim leaned back in his chair, took a deep breath, and then rocked forward and placed his elbows on the table in his signature gesture.

“As crazy as this is going to sound, I would think that losing Russ Bauchman in the Tool Group would be a serious blow to the company.”

Anna asked, “I thought Russ was just a tool and die technician?”

“It may look like that in his HR records, but Russ is more craftsman and artist than tool maker. He has critical knowledge of what makes our highest volume dies work. We have tried our best to document our designs but there are nuances that are tough to convey on a CAD drawing.”

“What about other tradesmen?” asked Nick.

“Tradespeople.” Anna quickly added.

“Yes, we have both men and women in the Tool Group. But I am sad to admit that we have struggled to keep our younger tool and die apprentices here long enough to learn from Russ and the other veterans.”

Davidson looked in the direction of Anna and said, “Sounds like Human Capital Management needs to partner with Tim’s and Jim’s departments to find more effective ways to

find and retain key talent. We need to accept the fact that our current development and retention strategies are not working for the workforce we need, both current and future.”

“I will get with our Vivian, our Human Resources director, and report back to the group,” said Anna.

“OK, let’s stay with Anna and the Finance and Accounting department. Anyone come to mind that is near-term critical to the business.”

“I would nominate David Hilal, our controller. It takes a long time to grow a controller to a point where he or she knows the business well enough to help us lead the company.”

“I agree that David has been a terrific addition to the team, and he has the correct first name, but a determining factor is whether someone else could pick up his duties in the near term. Risk is about timing, magnitude or impact severity, and probability of occurrence.”

“I would be able to cover for him if something happened,” said Anna.

“And hopefully nothing is going to happen to him or any of our other associates, but we need to consider back-ups. Who do have in your department that does not have a back-up?”

“Well, while technically she is not in my department, I would vote for Debbie Thomas in the Material Order Management Group or the MOM group as it is affectionately known. It takes a half dozen people preparing in advance to support Debbie when she takes time off to visit her grandchildren.”

Davidson’s vice president of supply chain, Pat Gorey, who also managed shipping, receiving, purchasing, and the MOM Group, was quick to respond, “I couldn’t agree more, Anna!” We had to fight tooth and nail to pry several of Debbie’s key accounts from her to spread them across the team. As you all know the MOM Group is a bit, as you say, overly protective of our customers.” That elicited a smile from the entire team. Everyone at American Spring was aware that the MOM Group ran the business because they answered directly to the customer. Very much like your own mother, you did not want to disappoint the Mom Group.

Before Davidson could chime in, his gray-haired supply chain veteran said, “We need to get busy to mitigate this risk. It shall be done!” A motto taken from the book, the *Go Getter* by Peter Kyne.⁶ The executive team had started a book club soon after Davidson’s arrival. Kyne’s story of the tenacious William Peck and his quest for the blue vase was the first read by the executive team.

Nodding his appreciation for the reference to the *Go Getter*, Davidson looked at the last member of his executive team, the Vice President of Sales and Marketing, Nick Sofia. Nick was the newest member of the America Spring executive team. While he had been with the company less than a year, Nick was quickly making a mark for himself. He had recently notched a major sales win by securing the seat spring contract with the U.S.’s largest tractor builder. Nick was also the youngest member of the executive team by a wide margin. His brown hair had started thinning just out of college, making him appear more seasoned than he really was. Yet his startling green eyes and infectious smile radiated youth and energy. Nick was also the only member of the executive team with young children. Nick and his wife Sara, a sales professional

for a pharmaceutical firm, had three children under the age of five, and one less than three months old. The team knew that the Sofias had to balance a busy and hectic family life.

As a typical sales professional, Nick made sure to think through his response before speaking. “As you know, I am still new to American Spring. According to Pat, I still have my water wings on. However, maybe because I am still so new, I feel the biggest risk, from a succession planning perspective, is Pittsburg.” He waited a few minutes to see if his colleagues would respond continuing, “Pittsburg continues to be the big elephant in the room. We all know that they are a huge risk, but no one wants to address it!”

“Is there such a thing as a small elephant!” quickly quipped Pat.

“Yes. But this is a big one. You know, an African versus an Indian.”

Trying her best to contain laughing, Anna asked, “Are we talking about elephants or a problem?”

Nick quickly responded, “I understand why we bought Robert’s company in Pittsburg. It gave us market share in the semi-truck segment.”

“Not to mention a truck load of revenue and margin!” Anna quickly added.

“Yes, they comprise nearly a quarter of our revenue and one-third of our margin. The problem is that they have been allowed to operate autonomously from the rest of the company. They follow different accounting rules and have different compensation plans for their sales staff. This creates animosity amongst the sellers and staff. But worse, they are a huge risk. The Pittsburg accounts all still fall under Robert and their production is single threaded under Chris. If something were to happen to either of them, we have a big problem.”

Davidson waited for his young leader to finish and looked around at his executive team.

“Team ... (pause) ... Nick is spot on. We, the collective we, have failed to onboard and integrate Pittsburgh into the company and this risk is only going to get worse as they grow. We need to add this to our quarterly planning retreat agenda. Tim, please work with the rest of the team to pull together a pre-read prior to our offsite.”

“It shall be done.” He said with a smile.

“I am sure glad we read that as our first book! Now, what are big takeaways from today. First, succession planning, is not owned by HR but by us ... the executive team and the board of directors. It is the same for risk management and business continuity. As the senior leaders of the organization, we are called to protect and improve the company. Second, we cannot boil the ocean. Meaning our approach to risk management must be based on common sense and prioritization. Our risk mitigation decisions should be based on timing, severity, and probability. Our first order of business needs to focus on high impact and near-term probabilities. Today we started building our risk management program by tackling the most important input to our business ... our talent.”

“Are succession plans the same as career development plans,” asked Nick.

Davidson responded, “No. While career development is important in any great organization, succession plans are targeted, prioritized, and focused on preventing near-term impacts to the business. And remember, it could also include the loss of opportunity.”

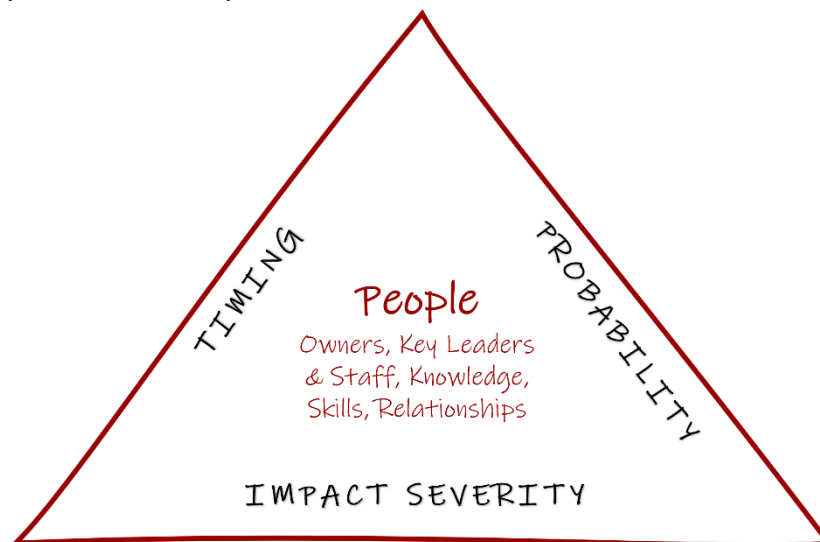
“Do you mean like the Mercedes account?” Referring to a major prospect the company had been working on for the past eighteen months.”

“Absolutely. If Michael Barrett is not on your succession planning list Nick, he needs to be! Michael is the key to that relationship. It is highly doubtful we could close the deal without him.”

Jim added, “Shouldn’t the succession plan be within our control?”

“Yes, but ... We are paid to control as many of the outcomes as possible.”

Davidson took a dry erase marker and drew a large triangle on the whiteboard. In the middle of the triangle, he wrote the word *People*. Then underneath he added the bullets, *Owners, Key Leaders & Staff, Knowledge, Skills, and Relationships*. On the outer edge he added *Timing, Impact Severity, and Probability*.



“OK ladies and gentlemen ... in summary, it is all about our people!” We need to protect the company’s capabilities from the unplanned loss of availability of key owners, leaders, and staff. I would like you to spend time this week determining who from your departments should be included in our succession planning process. Back to Rich O’Donnell for example. He is in the retirement zone, there is no back-up for him, and he is our primary product designer. Pretty big impact, I would say.”

“Agreed Boss, it’s time we solved this one,” said Jim.

LESSONS LEARNED

- ❖ Identify who in your organization that if they were suddenly not available, would have a serious adverse impact on the organization.
- ❖ Succession plans are not based on title or compensation but severity of impact from the unavailability of the person.
- ❖ A person’s impact to the organization is based on their knowledge, skills, and relationships.

- ❖ Evaluate the risk of losing the individual in terms of timing (near-term), severity of impact, and probability of occurrence.
- ❖ Try to quantify the potential impact or opportunity loss.
- ❖ Prioritize the list of candidates that need succession plans. Focus your energy on the most critical positions first. The list should be small.
- ❖ Develop a plan to mitigate the reliance on those individuals. Create depth. While it may take months and possibly years to achieve sufficient depth, start today by establishing a plan.
- ❖ Establish the process for sustaining your succession plans.

“The true meaning of life is to plant trees; under whose shade you do not expect to sit.” –

Nelson Henderson