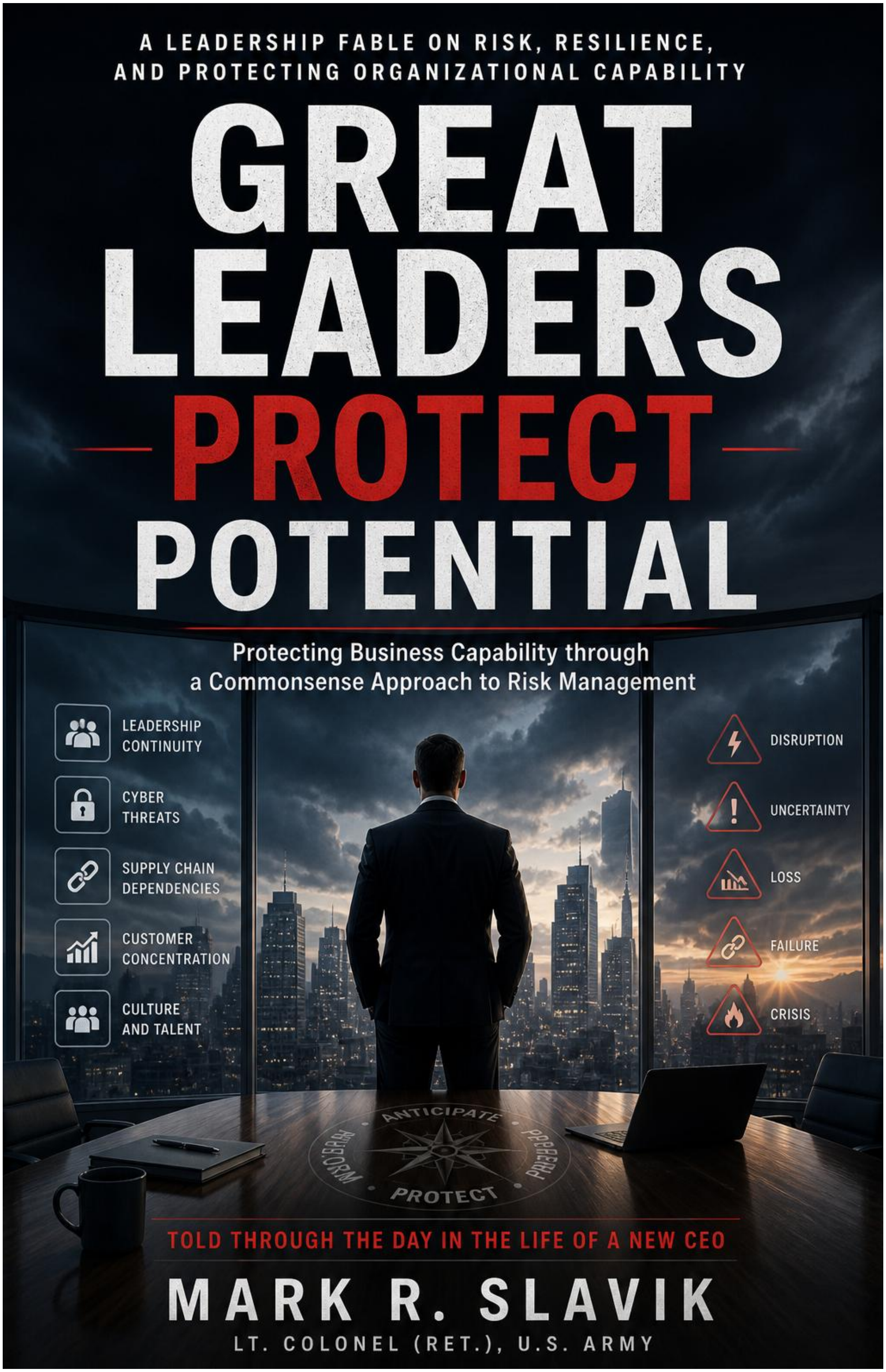
A LEADERSHIP FABLE ON RISK, RESILIENCE, AND PROTECTING ORGANIZATIONAL CAPABILITY
GREAT LEADERS PROTECT POTENTIAL
Protecting Business Capability through a Commonsense Approach to Risk Management
LEADERSHIP CONTINUITY
CYBER THREATS
SUPPLY CHAIN DEPENDENCIES
CUSTOMER CONCENTRATION
CULTURE AND TALENT
DISRUPTION
UNCERTAINTY
LOSS
FAILURE
CRISIS
ANTICIPATE
PROTECT
TOLD THROUGH THE DAY IN THE LIFE OF A NEW CEO
MARK R. SLAVIK
LT. COLONEL (RET.), U.S. ARMY

The following was adapted by a Risk Manager

Billy Joel's "We didn't start the fire" is a reminder of the importance of organizational risk management … "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), Tariffs – Iran – and more …?

"We didn't start the fire."[1]
Every generation faces disruption.
Great leaders prepare for it.

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 the 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 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 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, which are the essential ingredients of sustained success.

Risk management can provide the critical business intelligence on how and where the business should improve and seek new and expanded capabilities to better serve customers… before a competitor does. Effective risk management is essential not only for protecting the company's current capability to generate and deliver value to customers but also for its 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 leading the American Spring Company, the importance of being prepared for risks that could damage the company's performance, its position with its customers, and its future potential. The story takes the reader on a journey through the common risk pitfalls that successful organizations need to protect against.

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CHAPTER 1 – IT'S NEVER GOOD TIMING

David Davidson had waited for this day for most of his professional life. After graduating from Ohio State University's business school, he had made it his life's ambition to run a company. For the past twenty-some years, he had sacrificed evenings and weekends with his family, missed ball games and concerts, and worked extra weekends to take on projects 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, when the company's founder and CEO, Harry Neverstopt, suffered an unexpected heart attack. The board of directors took little time to decide that Davidson was the right leader for the job and voted unanimously to appoint him as President and Chief Executive Officer. He wished he were assuming the mantle of leadership under different circumstances, but he knew the company needed his leadership following the unexpected loss of its founder.

Davidson had been hired by the American Spring Company just two months earlier, at the board's insistence, to add another senior leader to the company after Neverstopt turned sixty-seven. He had more than twenty years in manufacturing and had held every role from line supervisor to plant manager to Chief Operating Officer. His appointment came as no surprise to the management team and employees. He had been informally tagged as the heir apparent to succeed 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 made him seem much taller. His military presence was impossible 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 leaving 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 uncomfortable. To those who did not know him, he came off as pushy and a little too intense for some people's liking. But once you got to know him, you knew 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 way. 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 he had 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 into one of the region's largest and most successful privately held manufacturers. The company proudly boasted that its coil springs were inside every automobile seat in the United States, Canada, and Mexico. It also claimed that its 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 he had accomplished. The fancy installation ceremony for the company's top post yesterday was still fresh in his mind as he surveyed his new corporate surroundings. It still seemed surreal …

all of it happening so fast. His plans to work as an understudy to Neverstopt for several years before assuming the role were unexpectedly altered. Davidson knew 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. It was only a few minutes past six in the morning, and his administrative assistant, Marla, would not arrive for another two hours. The 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 navigate the early-morning cleaning crews and reach the security office. The gentleman waiting to see him was dressed in a well-tailored charcoal gray business suit, a white dress shirt, and a red-and-blue striped tie. He was young but carried himself with a confidence that suggested 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?"

Davidson, growing slightly more irritated, 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 envelope, 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 sidestepping the question, the young lawyer added, "This is Mrs. Neverstopt's formal notification under the operating agreement to sell her majority interest in the American Spring Company. Please have your corporate counsel contact our office by the end of the day. We will see you and the board tomorrow afternoon at 2:00pm. Oh, and have a nice day."

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

He returned to his office, stunned by how quickly fortune could turn.
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 discretion. The scandalous affair between the former 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 endure for generations.

He could kick himself now for not pressing 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 there were also 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 returned to his office and asked for an emergency board meeting to discuss how best to 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 begin researching the rights of the attorney and the other shareholders.

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 its older production lines. He would not have the revenue impact from his Chief Financial Officer (CFO) for several days. He knew there would also be contract delay penalties for postponing the project, but there was not much he could do about it. The loss of available cash would also affect an important air permit compliance upgrade that had been promised to the state EPA in 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, and 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. Davidson also planned to work with his executive team to develop succession plans to mitigate the impact of 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 a time as any. I trust everyone has read the 'The Four Meetings' article by Patrick Lencioni that 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, listing the four types of meetings. "Anyone want to volunteer to name the four types of meetings?"

His CFO, Anna Walker, said, "The article listed four types of meetings, including Daily Check-ins, Tactical Staff Meetings, Ad hoc or Topical Meetings, and Quarterly Offsites."

Anna had been with America for the past twenty years, joining the company soon after graduating with an accounting degree from Miami University's The Farmer School of Business. She worked her way from staff accountant to controller, then led the newly formed FPA (Financial Planning and Analysis) teams before being offered the top post. Anna was slightly over five feet eight inches tall, the tallest of her five sisters, and had played volleyball for Miami. 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 Ad hoc Topical meeting and said, “Today’s meeting is an Ad hoc Topical meeting where we tackle a critical issue affecting the company’s success. The keys to success will be to stay on topic and have thick skin so we can wrestle with difficult issues. Oh, and these meetings require good preparation in advance to be effective.”[5]

“I am still a little confused about the differences between the Ad hoc Topical, Tactical Staff, and Quarterly Offsite meetings,” asked Anna.

“The weekly Tactical Staff meetings are designed to focus on our scorecard and key performance indicators (KPIs). They help us stay on track with our goals. We can also use these meetings to resolve obstacles to our progress and address time-sensitive issues. In contrast, we use our Quarterly Offsite to accomplish more ‘meaty’ work, such as annual objectives and goals. For example, I can see us conducting an offsite in the very near future 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 ninety minutes on your schedule. The only acceptable excuse for missing our meetings is being on vacation. Got it?” All heads nodded, acknowledging that the new CEO’s guidance had been sent and received.

“Back to today. As you are aware, the last couple of days have been a roller coaster. Fortunately, the chaos was limited to the executive level, as it should be. You have seen the memorandum for record from our corporate counsel discussing the changes in equity ownership, so there is no need to rehash 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 backups for key leaders?”

“That is a good definition, Nick. For our purposes, we need to add a little more clarity to the definition. Succession planning is a process for developing talent to replace key leaders and staff if they become unexpectedly unavailable. Their availability could be affected by many factors, including medical issues, 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, a graduate of Purdue University’s mechanical engineering program, headed the company’s research and product development department. He was a slender, fair-skinned man who had 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 was 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 Rich held in the company as its senior product innovator. His name appears on most of the company's patents. He is considered the primary source of American Spring's innovation and product development over 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, knowing how right his boss was.

Next, Davidson pointed to Andrew Burkey, the company's Chief Information Officer, or CIO. "Drew, it is your turn. Whose untimely departure would hurt? And remember, departure does not always mean death or being hit by the beer truck. They could win the lottery or receive an inheritance. We cannot predict what might happen in our employees' personal lives." Andrew, who went by Drew, was a 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 evenings as a Medieval reenactor. Proudly displayed on the corner of his desk was a photograph of Drew in his full Viking battle dress, including 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, in the near term, it is 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, a drum he had been beating constantly 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 Operating Officer, who oversaw all production facilities, spoke up.

"This is a tough one."

"That's why we get paid the big bucks, Tim!"

Tim Bartone was a former hockey player for the University of Michigan. At six-foot-four and barrel-chested, he walked with a slight limp from taking one too many slashes on the ice. Yet his personality was the opposite of his imposing physical presence. He was by far the most analytical leader on the executive team. Davidson knew it took Tim time to process and communicate his thoughts. But when he did, the results were always profound and helpful. Tim leaned back in his chair, took a deep breath, 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 that way in his HR records, but Russ is more craftsman and artist than toolmaker. 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 in a CAD drawing.”

“What about other tradespeople?” 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 toward 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 that our current development and retention strategies are not working for the workforce we need, both current and future.”

“I will meet 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. Does anyone immediately come to mind as being crucial to the business in the near term?

“I would nominate David Hilal, our controller. It takes a long time to develop a controller to the point where they know the business well enough to help us lead the company.”

“I agree that David has been a terrific addition to the team and has the right first name, but a key factor is whether someone else could pick up his duties in the near term. Risk is about timing, magnitude or impact severity, and the 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 backups. Who do you have in your department who does not have a backup?”

“Well, while she is technically 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 away from her and 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 knew 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 team’s first read.

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. Although he had been with the company for less than a year, Nick was quickly making a mark. He had recently secured a major sales win by winning 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, including one less than three months old. The team knew that the Sofias had to balance a busy, 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, then continued, "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 her laughter, 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 truckload of revenue and margin!" Anna quickly added.

"Yes, they account for 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 among the sellers and staff. Worse, they are a huge risk. All Pittsburg accounts still fall under Robert, and their production is single threaded under Chris. If something were to happen to either of them, we would have a big problem."

Davidson waited for his young leader to finish, then 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 will only 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 before our offsite."

"It shall be done," he said with a smile.

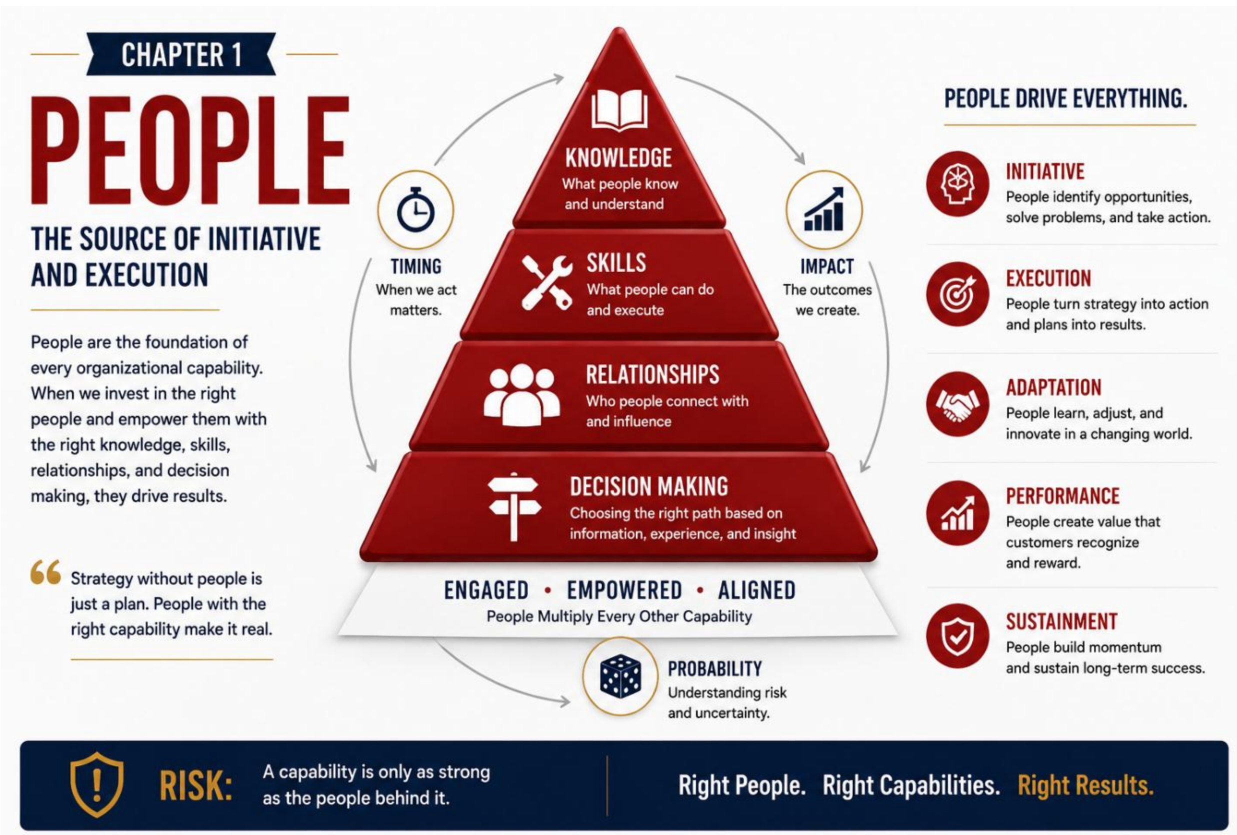
"I am sure glad we read that as our first book! Now, what are the big takeaways from today? First, succession planning is not owned by HR but by us … the executive team and the board of directors. The same is true for risk management and business continuity. As the senior leaders of the organization, we are called to protect and improve the company. Second, we cannot boil the ocean. Our approach to risk management must be grounded in common sense and prioritization. Our risk mitigation decisions should be based on timing, severity, and probability. Our first order of business should focus on high-impact, near-term risks. 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?" Nick asked, 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 outcomes as possible."

Davidson walked back to the whiteboard without saying a word. He drew a large triangle. In the center, he wrote PEOPLE. Beneath it, he listed Knowledge. Skills. Relationships. Along each side of the triangle, he wrote Timing, Impact Severity, and Probability. He stepped back, looked at the executive team, and smiled, “Ladies and gentlemen…this is what we've been talking about for the past ninety minutes. It all comes down to our people.”

“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 in 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 backup 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, if suddenly unavailable, would have a serious adverse impact on the organization.
- Succession plans are not based on title or compensation but on the severity of impact from the unavailability of the person.
- A person’s impact on 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 who need succession plans. Focus your energy on the most critical positions first. The list should be small.
- Develop a plan to mitigate 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

CHAPTER 2 – THE DOUBLE WHAMMY OF DEPENDENCIES

David Davidson had finally relented to his wife's request to leave a few hours early on Friday to join the family at their cottage on Lake Wantabethere. They had bought the picturesque retreat ten years ago from a widower who could no longer manage the sprawling waterfront property. Unfortunately, he could count the number of times he had been there on one hand, always succumbing to a crisis at work that would, in the end, resolve itself without his watchful presence. But today would be different; he had already cleared his hectic schedule and pushed at least half a dozen meetings to the following week. Davidson was on a mission to improve the balance in his life.

As Davidson was responding to the last few important emails before his weekend could start, his computer and all the lights in his office went out.

He called out to Marla, who was always two steps ahead of him. She must have read his mind, because she quickly responded from her desk,

"I am calling facilities now, Mr. Davidson."

The helplessness he felt in the dark, quiet office was almost surreal. He was not sure what to do; he always knew what to do.

A few minutes later, Marla stuck her head in the doorway. "Hank Bailey, your Maintenance Director, said the entire facility is out. He is not sure how much of the area is out, but he is checking with the utility company."

Marla James had been with the company since the early 1990s and had worked for Mr. Neverstopt for the past twenty years. She was a petite Black American woman who measured just barely five feet four inches, and part of that may have been her tightly pulled-up bun of hair. She was smart as a whip and had keen insights that Davidson quickly came to value. She also had no hesitation in letting him know if he was about to "step in it," as she put it. But she always did so in a manner that demonstrated the utmost respect and caring for her new chief executive. In turn, he trusted and valued her counsel.

"Any reason the backup generators didn't kick on?"

"Hank didn't sound very happy and said he'd be up to brief you as soon as possible."

"Have we experienced this before?"

"Three years ago. We were out for four hours, but it was over the weekend. Fortunately, we were not running the production lines at the time."

"What did Mr. Neverstopt do?"

"He rallied the troops or something like that. Of course, I was not here on a weekend."

"Are there any procedures or policies?"

"I think I remember there had been a recommendation to establish some type of backup plan."

"Do you mean like a business continuity plan?"

"That sounds like it, but Mr. Neverstopt dismissed the idea as a waste of money. Something about lightning never striking twice."

More to himself, Davidson said, “Unfortunately, it has.”

As the former operations leader, Davidson quickly calculated the cost of downtime in his head … production generates approximately $200,000 per hour for an eight-hour shift, times two shifts. If the blackout lasts all day, that could be over $1.5 million in lost revenue, not to mention missed service-level agreements, penalties, overtime, lost orders, and entire batches that would need to be scrapped … and the list went on and on. But he knew the greatest impact on the company was the erosion of their sole-source position with key customers. Most customers want multiple suppliers for price negotiations and as part of their continuity plans. In the event one supplier is disrupted, they can keep their operations going. Up to this point, customers had been willing to sole-source to American Spring because of their track record of on-time delivery.

After ten long, excruciating minutes in his dark office, he knew he could not put off the call any longer. There would be no trip to the lake this weekend ... again! At least he could tell Peggy that this time the problem was out of his control … at least that’s what he tried to convince himself of.

Thirty minutes later, his Maintenance Director knocked on the door of his dark office. The executive team sat on the couch and two extra chairs that had been wheeled in because Davidson’s office had more natural light than the Strategy Room.

“OK, Hank, what’s the prognosis?”

“Not good, I am afraid to report. The utility company reported that this outage is affecting most of the Midwest and parts of Canada. It is what they call a once-in-a-lifetime event. They are not giving any estimates of when the power will be back up. We should plan for two to three days.”

A loud groan came from where Tim Bartone, the operations officer, sat.

Tim asked, “And the backup generators?”

“Well, that’s the whammy here,” Bailey replied.

“A whammy?” asked Anna.

“You know … a devastating blow or a setback. We’ve had problems with the large three-thousand-kVA generator for the past few years,” the tired facilities manager sheepishly replied, not wanting to throw his colleagues under the bus.

“Sir, we tested it, but never under full load. We could not get operations to allow us to test the system during a full production run.” The look on the COO’s face confirmed Hank was correct. When the power went out and the electrical load was transferred to the backup generators, the primary unit quickly began to overheat. We ran diagnostics but cannot pinpoint what is causing the problem in the cooling system.”

“What about technical support from our vendor?”

“Last year we elected not to renew the technical service contract because the costs had skyrocketed due to the age of the generators.”

“So, we’re not a priority for them?”

"To be honest, they are doing their best. They are scrambling to reach everyone, but they do not have enough qualified technicians, the same problem we are facing in maintenance and automation. And the blackout is so widespread that they cannot get help from other offices."

"Any idea when someone will be able to help get the generator back online?" asked Jim Kettling, the head of Engineering.

But before Hank Bailey could respond, a frustrated Davidson quipped, "Two to three days, right?"

"Unfortunately, Boss, that's a pretty safe bet."

"Okay, team, what's next?"

"Should we send everyone home?" asked Anna.

Davidson replied, "Everyone except maintenance and a team from shipping and receiving. If this outage is as widespread as it sounds, it could affect water, gas stations, transportation, and stores. Do we have response plans for this type of emergency?"

"Just the normal fire evacuation plan," said Pat.

"Wonderful," he said with a poorly masked air of sarcasm. "What about a notification plan?"

"Unfortunately, we will need to do this the old school way," said Tim.

"What do you mean?" asked Davidson.

"We decided last year not to implement the emergency texting feature for communicating with our employees during emergencies. We will need to call our employees through a phone tree," offered a concerned Bartone.

Davidson looked around the dimly lit office and said, "This would be a good time to have a business continuity plan. We will talk about that in the future. For now, we need to get busy. Nick, work with the sales reps and MOM Group to contact our customers. While they may be going through the same thing we are, we want them to know we're doing everything possible to support their production. See who might still want to receive shipments. We cannot promise anything, but we will do our best. Tim, be prepared to ship from stock."

"Will do."

"We are fortunate that our cell phones are still working. Tell your managers to send their folks home and ask them to call back before they head to their next shift to verify whether the power is back up. The same goes for you. Other than Tim and Hank, you and your people head home. Let us link up by phone at 2:00pm, 8:00pm, and 7:00am, assuming the communications grid does not go down." Looking around in the dim light, he asked, "Does anyone have anything else we need to discuss?"

As if rehearsed, the team responded, "It shall be done."

Midway through Friday afternoon, the utility company restored power at about the same time the generator technicians got the backup generators running.

Davidson's executive team assembled in the Strategy Room at 3:00pm that afternoon. They needed to assess the outage's impacts and decide whether production needed to run over the weekend.

He turned to Tim and asked, “Tim, please bring us up to speed on the outage.”

Tim reported, “Had the blackout occurred at the beginning of the week, it would have been far worse. The electrical grid was back up in seventy-two hours. We lost a total of six shifts due to the outage. Averaging $500,000 per shift, that’s roughly $3 million in revenue impact, though we will have more accurate numbers next week. Then there’s rework time, overtime costs, and the impact on our customers… But that is only part of the problem.”

Before his CEO could respond, Bartone quickly added, “If I may, I’d like Hank Bailey to join us.”

Bartone sent a text to his Maintenance Director, who quickly joined the team.

Bartone said, “Hank, please bring the team up to speed on our next challenge.”

Davidson’s eyebrows shot up, but he let Bailey continue.

“Yes, sir. The backup generator would have helped us better manage the emergency.”

“Meaning…?” asked the head of engineering.

“It would have helped us power down the plant in a more controlled, systematic manner. For whatever reason, the power spikes from the electrical outage damaged the controls on several of our major automated lines.”

“So, the power is back up, but the plant is still down?” asked the CFO.

“That is correct. We ordered the replacement parts a few minutes ago, but unfortunately, they will not arrive until Wednesday morning.”

“We cannot get replacement parts any sooner than that?” a concerned Davidson asked.

“Unfortunately, the chip shortage is affecting the entire robotics industry. We have tried every available source. Everyone else with the same automation is scrambling to get controllers. The spikes in electrical loads damaged several of the circuits in the controllers. If everything goes well, we might be able to run a second shift on Wednesday. Also, we added additional uninterruptible power sources inline to these cells to protect the systems from power spikes.”

To rescue his director, Tim Bartone jumped in. “We have already coordinated with our automation vendor to have technicians on site until we are back to 100% production. We estimate that we will lose all of Monday and Tuesday and one shift on Wednesday. We will burn through our stock for Regent on Tuesday … meaning Regent’s production will be down at least until Friday morning, maybe until the start of the next week.”

The atmosphere in the room was immediately drained of energy upon learning the impact on Regent, their largest customer. They knew the risks to the company if something happened to the Regent business.

The meeting room resembled a funeral wake. They waited an excruciatingly long time before their chief leader spoke.

Breaking the somber mood, Davidson attempted to rally the troops. “Hank, would you call this a Double Whammy?”

“Yes, I think this would qualify as a double whammy!”

The levity was both appreciated and needed by the team.

“There is no sense in starting the ‘would-haves’ and ‘should-haves’ now. We need to focus on what we can control over the next few days. Pat, work with Nick’s team to tightly manage our stock to keep our clients running. Tim, make sure we have everything prepared to receive the controls and get those lines back operational as soon as possible. Plan on your crew running the next few Saturdays to get caught up. And Anna, I want you to run point on capturing all the costs associated with the outages. We will tackle improvement strategies once we get through the crisis. Make it happen!”

Four days later, Davidson and his executive team held an ad hoc meeting to review the impacts of the electrical blackout. He waited for everyone to take a seat around the long table in their strategy room. Setting down his cup of coffee, he held up the daily newspaper and read the front-page article verbatim. “On August 14, North America experienced one of the largest blackouts in history. It affected eight states in the Midwest and Northeast, and parts of Canada. At its peak, more than fifty million people were without power. The blackout has been estimated to have cost businesses over $6 billion in direct costs and much more in losses in goodwill and brand equity. With consequences measured in numbers of such magnitude, it is not surprising that a rush of investigations and studies has been initiated to analyze the causes of the power failure and pursue answers on how to prevent the occurrence of another power outage of this scale.”7

Davidson stepped to the whiteboard and erased the triangle labeled People. Next, he drew two boxes and wrote the word People with bullets below: Owners, Key Leaders & Staff, Knowledge in the top box. In the bottom box, he wrote Infrastructure with bullets below: Facilities, Utilities, Equipment. Above the boxes, he added the word Inputs. Next, he drew an arrow labeled Environment and added the word Externals above.

Turning back to his executive team, he said, “Our latest challenge involved an environmental impact on our electric grid. We consider this an external influence or risk. We cannot control these risks at the source. They could be a tornado, inclement weather, a chemical spill outside our facility, or other factors that prevent us from using our capabilities to serve our customers.

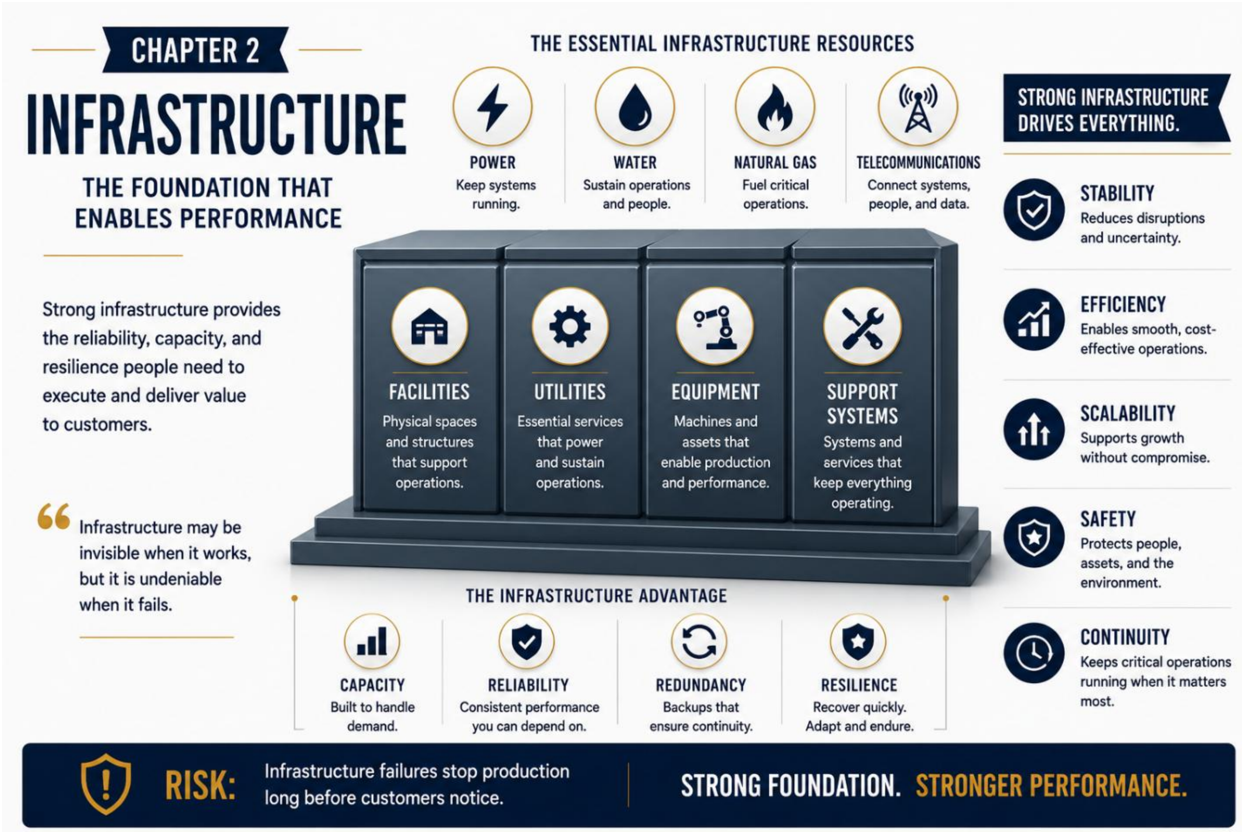
“Capabilities?” asked Anna.

“Capabilities are our abilities to transform or convert inputs such as people, facilities, equipment, technology, and knowledge into products and services that provide value to a customer willing to pay for them. I know that’s a mouthful, but the concept of capabilities to meet customer value is fundamental to our success.”

“Is this why you assigned us Charles Kock’s book, Good Profit?” asked Nick.8

“Yes, like Ken Blanchard’s New One Minute Manager and Jim Collins’ Good to Great, it is a mandatory read for leaders.9,10 It is my goal to implement many of the concepts of Kock’s Market-Based Management Framework (MBM) and Blanchard’s New One Minute Manager at American Spring.

Picking up his copy of Good Profit, Davidson thumbed to a section he had tabbed.



"I want to leave with just a teaser because we will go into MBM in much more detail in preparation for our quarterly offsite. Kock writes, 'MBM prompts us to focus on understanding consumers' unmet needs and finding ways to satisfy them.'11 He is talking about capabilities and the importance of continually enhancing them. Again, we will dissect the MBM Framework later. We need to get back to our discussion on risk management."

Davidson refilled his coffee cup and paused for a few minutes before speaking again. He wanted to make sure he had his executive team's full attention.

"There is no easy way to say it; we were totally unprepared for this risk, and it seriously hurt our employees, customers, and shareholders. To make matters worse, we failed to have critical repair and replacement components on hand to keep the factory running. This failure rests squarely on my and your shoulders. Our people deserve better from us. Now, this is, as they say, water under the bridge. We need to learn the hard lessons from this interruption and make sure it does not happen again."

Davidson was a student of the New Minute Manager and knew the power of One Minute Goals and One Minute Redirects. He said, "I know that our team is still new, but I have total trust and confidence that we have the right stuff to lead American Spring into the future! 12 Tim, you have my full authorization to ensure all production and critical support facilities are supported by alternate energy sources. Figure out what we need and develop any capital funding requests. Anna, please work with Tim on the funding requests. I want the back-up generators tested under full load and regularly. No excuses and no alibis. Do you understand?"

Tim responded, “Yes, boss. I assume the alternate energy source is a new One Minute Goal?”

“Quick learner!” responded Davidson.

Then he added, “Anna, please make sure the teams have the necessary funding … no red tape and holdups? Capeesh!”

“Understood!”

“I will let the Board know that will be coming to them for additional capital requests. I want the funding request to me by the end of the month. Next, we need to develop a business continuity plan for dealing with disasters and risks to our capabilities… double, triple, and quadruple whammies!”

The CIO offered, “Like our disaster recovery plans?”

“Yes, but these plans need to be fully tested! No pencil-whip drills! We only want to focus on critical processes. I am not interested in maintaining the non-critical applications or systems.”

Sensing his young CIO did not understand the term pencil-whip, a carryover from his military days,

Davidson added, “Drew, the term ‘pencil-whip’ implies approving or signing off on work that has not actually been tested or verified.”

“Understood, boss,” responded Andrew.

Davidson looked back to his COO, who felt like he would never escape the hot seat, “Tim.”

“Boss.”

“You have thirty days to confirm with me that all critical components with long lead times are available. I do not care whether they are on our shelf or with our vendor, but they need to be available to prevent production from being shut down or seriously degraded. Your planning factor is that production can never be down for more than one business day, ever! I am authorizing additional stock until the continuity plan is in place. We are clear?”

“One hundred percent clear!” My second One Minute Goal for the day,” he said with a slight smile.

“Also, Nick, please draft an apology letter for customers and colleagues for me to sign. It needs to be clear that we take full responsibility for this incident and that we promise it will not happen again. Got it.”

“It shall be done!”

“Good!”

He surveyed his leadership one last time and asked, “Are we missing anything?”

After no one spoke, he said, “Good. Now make something good happen.”

The group did not need to be told twice to leave the conference room before anything else happened.

Sitting in the empty conference room, Davidson stared up at the portrait of their founder, Mr. Neverstopt. He could not help but wonder why the old man had not established formal procedures for handling a disaster like the blackout.

Davidson muttered to himself, “Thanks, Boss!”

Davidson reflected on his first week at the helm. First came the painful lesson of lacking a formal succession plan with the appropriate buy-sell agreements to ensure the corporation could survive the loss of a major shareholder. His next lesson would come at the hands of the utilities and his team’s misguided trust in the electrical grid. He found some solace in knowing that very soon they would have an alternate energy source in place to maintain the critical business processes and systems.

LESSONS LEARNED

- Develop a Business Continuity Plan (BCP) focused on your critical business systems and capabilities for delivering value to your customers.
- Do not overcomplicate the BCP process. Use scenarios to drive planning (e.g., when access to your facilities is prevented).
- Focus on what you can control. Because you cannot control most external factors, focus your planning on response.
- Take a Good, Better, Best approach – tackle risks with the highest likelihood and impact severity.
- Focus on factors that could immediately impact your production or delivery of products and services. Loss of access to utilities, especially electrical power, natural gas, water, and the internet, should be the primary focus. Other key issues include impacts to suppliers, labor (i.e., the workforce), and transportation. Understand the true costs to the business from a stoppage and make the necessary investments in people, redundant processes or backups, and targeted inventories.
- Protect key customers at all costs, especially sole-source relationships.
- Invest capital in redundancies, inventory, or a hybrid approach to protect sole-source positions.

“Continuity Plans are like backup parachutes – hardly ever needed but you do not want to operate without one.” – Author unknown.

CHAPTER 3 – TECHNOLOGY “THE DOUBLE-EDGED SWORD”

David Davidson had been sifting through a mountain of emails that morning and did not notice the email without a subject line. It appeared to come from his information technology staff, based on the address. The email advised that his company password was set to expire in 7 days and would need to be updated. Without much thought, Davidson clicked an innocuous-looking link at the bottom of the email and, when prompted, entered his username, current password, and new password.

Several hours later, when Davidson opened his file directory to retrieve a document he had been working on, the names of all his files were unrecognizable gibberish. Within a few seconds, his computer slowed to a snail’s pace as more of his files displayed gibberish numbers and letters. The only file name on his Desktop that remained readable was a text file he didn’t recognize called “READ ME.” At first, he thought it was a strange glitch in his Windows operating system, but something told Davidson it was more than a standard computer problem.

He called the help desk and told the senior technician to come to his office as quickly as possible. He did not say why, only that it was especially important. The company’s senior desktop technician, John Vanek, knocked on the open door a few minutes later.

Davidson looked up from the frozen screen and said, “Please come in, John.”

“Mr. Davidson, what seems to be the problem? I’m glad you caught me. I was just heading out the door for the day.”

“My system keeps locking up.”

“Do you mind if I take a look?”

“No, please,” he said, motioning for the technician to come around the desk.

“Anything been happening?” John sat down behind the PC and did a hard reboot. They both waited for the system to come back online.

“Just the freeze-ups. I also completed the password update you sent out, but that shouldn’t affect anything, right?”

“Password update?” John asked. “There shouldn’t have been a password change unless you requested it. We keep those to the first of every quarter.”

"Well, I can show you the email,” Davidson offered, “assuming my file folders aren’t still acting strange.”

“Strange how, sir?”

“Right before my system locked, the names of my files and folders became all messed up.”

“Messed up?”

“Yes, incognizable … like a bunch of gibberish.”

The look on the senior tech’s face startled Davidson.

“What’s the matter?”

The technician got out of the chair and quickly unplugged his boss’s computer just as it prompted Davidson for his login credentials.

“You’re scaring me, John!”

“Sir, it may be nothing, but it could be a ransomware attack. We need to err on the safe side.”

John immediately called his boss, Andrew Berkey, and relayed the information. Berkey agreed that he had done the right thing by shutting down the CEO’s computer. Time was critical during a cyberattack, and they needed to make rapid decisions.

“John, give me a minute to work with Lloyd on our end.” Lloyd Crawford was their senior network administrator and the resident cybersecurity expert. The next few minutes crawled by for Davidson as John Vanek waited for word from Berkey. Five minutes later, Berkey called back, his voice carrying a recognizable level of concern.

“They got in. We do not know how far or how bad it is, but we need to take aggressive measures to isolate ourselves and our data. The first step is to lock down the infected systems as quickly as possible. Lloyd and I will coordinate isolating the network. I want you to focus on shutting down user PCs.”

“Which computers?”

“All of them. Now let’s get moving because time is not on our side.”

The technician grabbed the phone on Davidson’s desk and began to send a facility-wide page.

“This is John Vanek at the helpdesk. We are experiencing a cyberattack. I need everyone to please power down your computers…” John stopped the page as Davidson heard a robotic female voice from the phone’s receiver. John hung up the desk phone. “Our phone system is down,” he told Davidson, then pulled out his cell phone and began calling other IT technicians. Those who answered were told to immediately go around and shut down all employee computers and company servers.

Davidson, seeing the concern on John’s face, asked, “Is it serious, John?”

“Too early to know how much of our data they have already encrypted.” Sensing the technician’s rising stress, Davidson said, “John, don’t let me get in the way.” With that, his senior technician headed out to make sure everyone was powering off their systems.

Davidson could not have felt worse. Here he was, the guy in charge. He was supposed to be the person who solved problems, not create them. He walked down to the IT shop to assess the situation. As he looked through the outer windows, he could clearly see the staff’s frantic mood as they tried to track down the malware and isolate it. He decided it would be better to let them work without interruption, so he headed down to walk the plant floor.

Davidson had grown up in a world of technology and, like most others, took it for granted. It was like the quote that says, “Technology is like sausage; it’s better not to see it being made.” He expected his Outlook and Microsoft Office applications to work when he needed them and did not give much thought to how the IT department made it all work. He was beginning to understand that companies had to strike the perilous technological balance between convenience and security.

Back in his office, he asked Marla to order food for the IT department because he sensed it would be a late night.

It was nearly 3:00 am before the CIO knocked on his door; Marla had already left for home hours earlier.

"Andrew, please come in." Davidson pointed to the large leather chair by the coffee table. "Are we getting close?"

His CIO let out a heavy, exhausted sigh as he sat down. "Yes and no. We have finally stabilized, but we will be here for several more hours before we've regained sufficient business capabilities for me to start sending people home. I mobilized one of our cybersecurity vendors to help."

"What exactly is the problem?"

"Sir, we were under attack by malicious actors."

"Ransomware attack?"

"Afraid so. We have seen an uptick in phishing attempts over the past few weeks and are in the process of proposing mandatory security awareness training for everyone. Unfortunately, the bad guys beat us to the punch."

"You said there had been an increase in phishing incidents?"

"Yes, we have seen a significant increase in the number of phishing attacks. These cyberattacks have become increasingly sophisticated, especially spear phishing, which uses personalized emails to trick individuals into believing they are legitimate."

"The one email I clicked had the Helpdesk's signature. It looked legitimate!"

"These criminals are getting better all the time. Their goal is to trick an unsuspecting victim into providing their credentials or downloading a Trojan or keylogger via an email link or attachment. Once attackers gain access, they install malware that spreads across the network and encrypts the victim's personal data unless a ransom is paid. Their goal was to reach and encrypt our databases, making them inaccessible. Then they could attempt to extort the company, demanding that we pay a ransom to obtain the decryption keys or to prevent them from posting our sensitive employee and client information publicly. We have also seen an increase in spam emails and in responses from our antivirus protection programs."

"Andrew, did they get our data?"

"I do not believe they got far enough into our systems before we shut them down. Our quick response appears to have saved us from paying a decryption ransom. The malware infected several of our servers, including our phone server, before we managed to stop its spread. We have confirmed that the rest of the network is unaffected and that none of our data was sent outside our network. Most importantly, our data backups were not compromised. Now that we have quarantined the malware, we are working on reinstalling every infected machine in the company … manually."

"That had to be hundreds."

"Two hundred and thirty machines, to be exact."

In addition, we must manually reconstruct a large portion of the data for the past three days."

"Could you be a little more specific?"

"Yes, sir. Our production orders during the outage will need to be entered by hand. I have already spoken with Tim, and his team is on it. Also, Anna's department will reconcile AP and AR to ensure we do not have any gaps."

"What a mess … Any recommendations?"

"To be honest, we dodged a big bullet. We will conduct a lessons-learned session once we are through the crisis, but I have no doubt the primary recommendations will be to seriously step up our information security program and security training.

"Anything else I need to know?"

"Not right now. We're still analyzing our systems and getting all the computers back online."

"Well then, get back to the fight."

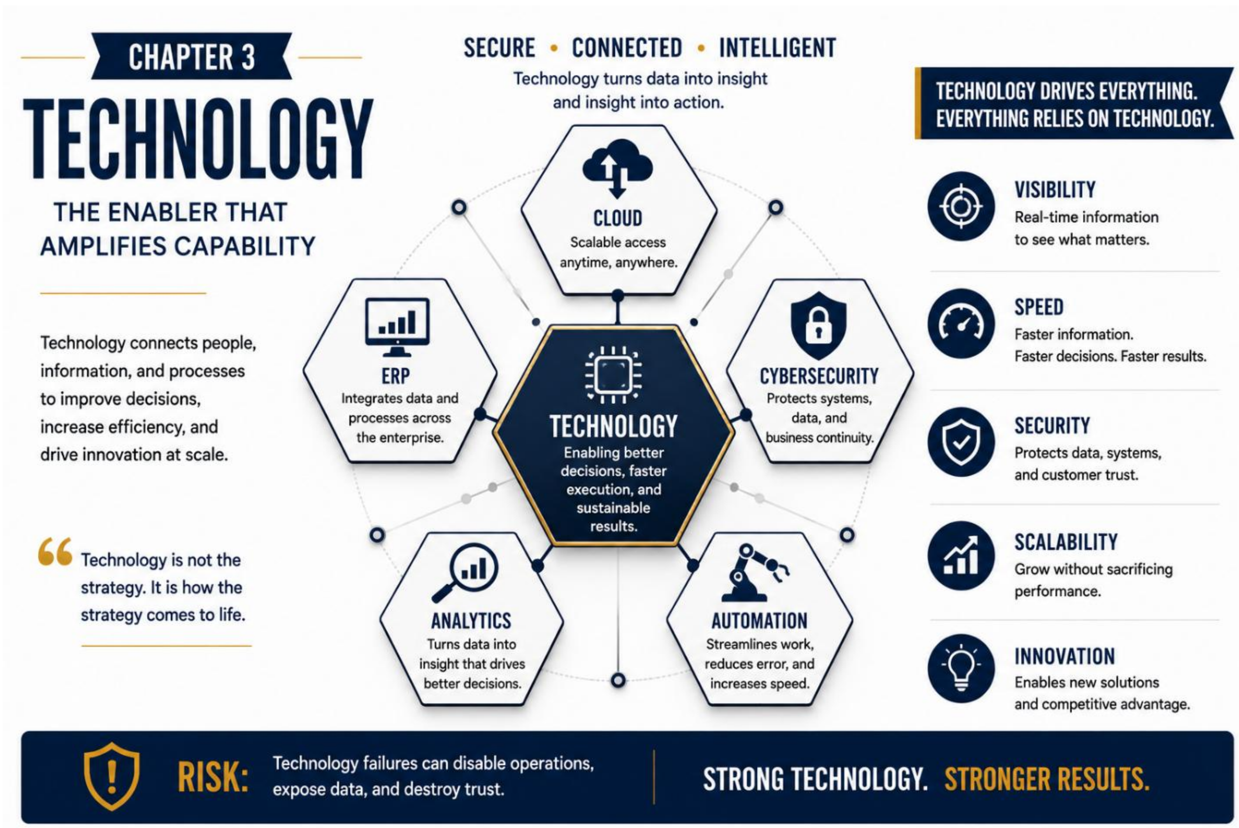
Three days later, the executive team convened to discuss the crisis. Their strategy room had seen more action in the past two and a half weeks than in the previous five years. Through the herculean efforts of the IT staff and their cybersecurity vendor, American Spring was up and running across all systems by mid-morning. Reflecting on the incidents of the previous twenty hours, Davidson could not help but wonder why they were all occurring on his watch as Chief Executive. He had been at the helm of American Spring for just nineteen days and had already weathered the potential hostile sale of the company, a regional electrical blackout, and a cyberattack. The trip to Lake Wantabethere could not come soon enough. He promised himself he would get there soon.

Davidson waited for the last few leaders to take their seats before beginning the meeting.

"The advent of technology has allowed us to process and communicate at speeds never imagined just ten years ago. It has become such a part of our daily lives, both business and personal, that we take it for granted. We learned an important lesson yesterday about the dangers of cybercrime. That's why I have asked Andrew to contract with a cybersecurity company to conduct a vulnerability assessment and develop recommendations to protect us, our customers, and employees from future cyberattacks. This will involve the entire team at American Spring and will require your full cooperation. As we have been made painfully aware, while technology is integral to our capabilities, it needs to be protected and continuously improved. We pose the greatest threat to our information systems by unintentionally allowing malicious actors inside, whether by downloading files or clicking links. I personally need to be more careful when reviewing the sources of the emails I open.

Davidson stood up to underscore the importance of what he was about to say, "Cybersecurity, Disaster Recovery, and Business Continuity must become part of how we do business and not be viewed as a distraction. Our risk management program must include the critical business information systems and data needed to drive and support our business."

Davidson stood in front of the large dry-erase board and made modifications to the company's risk management program. He reached the bottom of the diagram and added a new block. Inside, he wrote Technology in blue and listed the bullets: Systems, Data, and Analytics. Next, he added Society to the Externals arrow affecting the company.



"Question, any thoughts on why we added Society as an external influencer?"

Anna jumped in and said, "I believe it represents the criminals who tried to steal our data."

"Correct!" Society and its smaller communities within it are made up of both good and bad influences. We must guard against the bad ones and support the good ones. Andrew, please give the team a quick overview of what we discussed last evening," said Davidson.

"Will do. First, this is not a new issue or risk. We have been debating the need for increased security around our information and technology systems for the past several years. As we just reported, we narrowly escaped a much more serious crisis. Had the bad actors been able to encrypt more of our data, the ransom could have cost us a million dollars or more. The costs were contained to lost time getting the systems back online. The impact on operations was limited to part of one shift."

"Massive thanks to your team, Drew, from Operations!"

"You are welcome. The team went above and beyond. Unfortunately, our office personnel and engineering lost a full day of work by the time we got their computers back online."

"Still, awesome work, Drew!" said Anna.

"Based on our lessons learned and feedback from our cybersecurity vendors, we need to take our information security program far more seriously. We know threats from bad actors will only get worse. Starting next week, we will conduct cybersecurity training for everyone, including vendors who access our networks. Pat, I will need your help integrating this into our vendor risk management program."

"No problem. I figured this was coming, given the increased number of cyberattacks reported in the news."

Andrew continued, "Our information security awareness training will include both initial and annual refresher sessions, so please support me when the schedules come out."

Davidson held up his hand to stop Andrew. "I need to correct something Andrew just said. He said, 'please support me.' An impact to American Spring from a cyberattack hurts our customers, employees, and shareholders. It hurts us … all of us. So please support us when the schedules come out! I need your help to make it a priority and to lead by example. OK, back to you, Andrew."

"A key focus of our training will be social engineering."

"Is that when someone tries to deceive you into gaining access to our systems?" asked Nick.

"Correct! The first line of defense is to carefully check the sender's email address. Look for any misspellings or irregularities. Urgent requests should be a red flag, especially those involving financial details or PII."

"PII?"

"PII stands for Personally Identifiable Information, which includes information such as individual names, addresses, and Social Security numbers. The key takeaway is to avoid clicking links or downloading attachments from unknown or suspicious emails. If it's important, call the sender to verify."

"Similar to what we do to verify wire payments?" offered the CFO.

"Exactly, Anna. Anything important with email addresses you are not familiar with … verify before trusting. In addition to training, we are going to conduct periodic phishing and vulnerability testing. Lastly, we are going forward … finally … with requiring multi-factor authentication to gain access to our networks."

"You mean the extra verification process that Mr. Neverstopt killed last year!" said Tim.

"One and the same. If you still remember from my presentation two years ago, Multi-factor Authentication, or MFA, is a protective method in which a computer user is granted access only after successfully presenting two or more pieces of evidence to an authentication mechanism," responded Andrew.

Davidson interrupted for emphasis, "Most of us have been using multi-factor authentication in our personal lives for years, in banking and healthcare. It is time we got with the program. Human error, mine included, will always be the most vulnerable part of our network's security. MFA adds an extra layer of security when we inevitably mess up. And as I understand it, this recent attack likely would have been thwarted if MFA had already been in place."

Andrew nodded.

Nick raised his hand to ask a question.

"Nick, question?"

"Does this cover my initial cybersecurity training?"

"Nice try, but no. I will join you and the other execs in the first class," responded Davidson.

"To wrap up, what new One Minute Goals do we need to develop from today's Ad hoc meeting?"

"I have at least three goals," responded Drew. "Number one is to implement security awareness training. The second is to conduct vulnerability testing, and the third is to implement multi-factor authentication."

"Agreed," said Davidson.

Pat got his boss's attention and said, "My goal is to incorporate our information security requirements into our vendor management program."

"Pat, Drew, please schedule time with me to review the goal descriptions. And with that … meeting adjourned. Thanks for all you do for American Spring!"

LESSONS LEARNED

- ❖ Develop and implement a proactive Information Security Program to protect access to systems and data.
- ❖ Implement security awareness training, including initial and annual refresher training, for all employees and anyone with access to your networks.
- ❖ Integrate Information Security policies and training into your Vendor or Third-party Risk Management Program.
- ❖ Implement multi-factor authentication.
- ❖ Implement an Incident Response Plan for when the above safeguards do not prevent an intrusion onto your network. This plan should specify the steps to be taken during an incident and who will take them. For example, normal business communications, such as company phones or emails, may be compromised during an incident. How will the incident response team and other employees communicate?
- ❖ Consider and build relationships with external organizations that will be part of your Incident Response Plan, including cybersecurity vendors, cyber insurance providers, and government partners (CISA and FBI).
- ❖ Understand how some state and federal laws might affect your decision to pay certain cyber actors or what must be disclosed or reported about a cyber-attack.

"Information is the oil of the 21st century, and analytics is the combustion engine." – Peter Sondergaard, Senior Vice President and Global Head of Research at Gartner, Inc.

CHAPTER 4 – THE SUPPLY CHAIN

Davidson accepted the early-morning invitation from Pat, his executive leader of the supply chain. Inventory, purchasing, shipping, receiving, vendor management, and the MOM Group all fell under Pat's domain. He knocked on Davidson's half-open door, right on time.

Looking up, Davidson said, "Pat, please grab a seat while I top off my coffee. Can I get you something to drink?"

"No, thanks. I already had my daily allowance of caffeine. My team keeps telling me that too much coffee makes me overly pushy!"

Once Davidson returned with his coffee, Pat said, "I appreciate you squeezing me in at the front of your day. I know you are still getting up to speed with the new job."

"No problem at all. I prefer periodic check-ins, especially until we get more comfortable working together. I promise not to second-guess every decision. You have full permission to tell me if you feel I am micromanaging you or the rest of the team. Not my intent."

"I appreciate that … and will take you up on your offer. I wanted to update you on a potential problem."

"I'm all ears."

"I'm sure you've been following the Russian invasion of Ukraine."

"Terrible situation. My prayers go out to the Ukrainian people!"

"I agree. The conflict has affected exports from that region. Previously, we sourced our insulated materials for some of our specialty products from Belorussia, which is now, like Russia and Iran, on the U.S. government's restricted trade list."

"You said previously. Do we still need the materials?"

"After Russia invaded, we started looking for an alternative material. We contracted with a supplier in Germany that was sourcing its raw materials from Asia. The problem is that the supplier has been more than a month behind schedule. That was the call I was on this morning."

"Early call for Germany."

"They know it is a big issue for us."

"What about stock?"

"That is the problem. We have already burned through most of our stock. Our estimates are that we will fall short of meeting Regent's orders for the first half of next month."

Davidson felt he had just taken another gut punch. Here they were, pulling out all the stops to salvage their sole-source position with Regent, and now another production interruption.

"First, thanks for giving me the information as soon as you learned of it. Please get the team together for a lunch meeting to discuss options. And Pat, please make sure everyone has a copy of the agenda and deliverables right away so we can hit the ground running at noon."

"It shall be done!"

At noon, the team was assembled behind their lunch orders, catching up on day-to-day activities of running the company.

Davidson got everyone's attention and said, "You've seen Pat's agenda and deliverables for today's meeting, so let's plow ahead."

Nick went first. "I asked Evan to physically walk Regent's plants with their plant managers to make sure they were not hoarding stock. This will help determine how big the gap is in meeting their orders."

"Smart thinking!" chimed in Tim.

Jim went next. "I am working with their engineering team on an alternate material that we had previously tested and received approval for from Regent. The material has the same performance qualities but costs more. If we eat the delta, my counterpart at Regent said they would be fine with the substitution. They would want about a week of testing to reconfirm the earlier lab work before giving us sign-off."

"That's excellent news," said Pat.

"Tim, any equipment changes needed to run the alternate material?"

"Not much impact on production. We have a couple of rolls of the material from the previous testing and certification."

Anna said, "We already worked up an estimate for costs with Operations and Engineering. The alternate material is going to run about $7

5,000 in additional cost, based on the projections, and we took a conservative view."

"I think we can live with that," said a relieved Davidson.

Jim was speaking with new vigor this morning after yesterday's difficult talk. "I gave Mike in the Program Management Office (PMO) and one of my engineers a heads-up to be prepared to fly to Germany to oversee the final production run for the new material. Figured we put on a full-court press on our vendor."

Davidson said to his team, "Excellent job! Does anyone have any issues with the recommendations? I take silence as unanimous approval. Jim, please move forward on the alternate materials and on sending the team to Germany. Nick, please work with Pat to try to tighten the actual need by Regent and other customers using that material. Pat, please get us back together before the weekend to check on our status."

"I have already sent the meeting invitations."

Nodding in appreciation, Davidson got up and headed back to the whiteboard. "Before we close today, I'd like us to work through our company risk management program. We need to add another risk to our planning calculus. Any takers?"

Pat was quick to offer, "The supply chain!"

"Yep, if OK, I'd like us to broaden the supply chain to include materials, vendors, and distribution."

"Makes good sense to me," said Anna. Davidson added a new input box at the bottom and included Supply Chain with three bullets, Material, Vendors, and Distribution. Next, he added Regulatory to the Externals arrows.

They waited for Davidson to retake his seat at the table. He looked around at his executives and asked, "Any thoughts on why I added Regulatory?"

“Because of the trade restrictions by the U.S. government,” said Jim.

“Correct. Regulatory can also include the laws and regulations we need to comply with. Does anyone remember what happened to Invacare?”

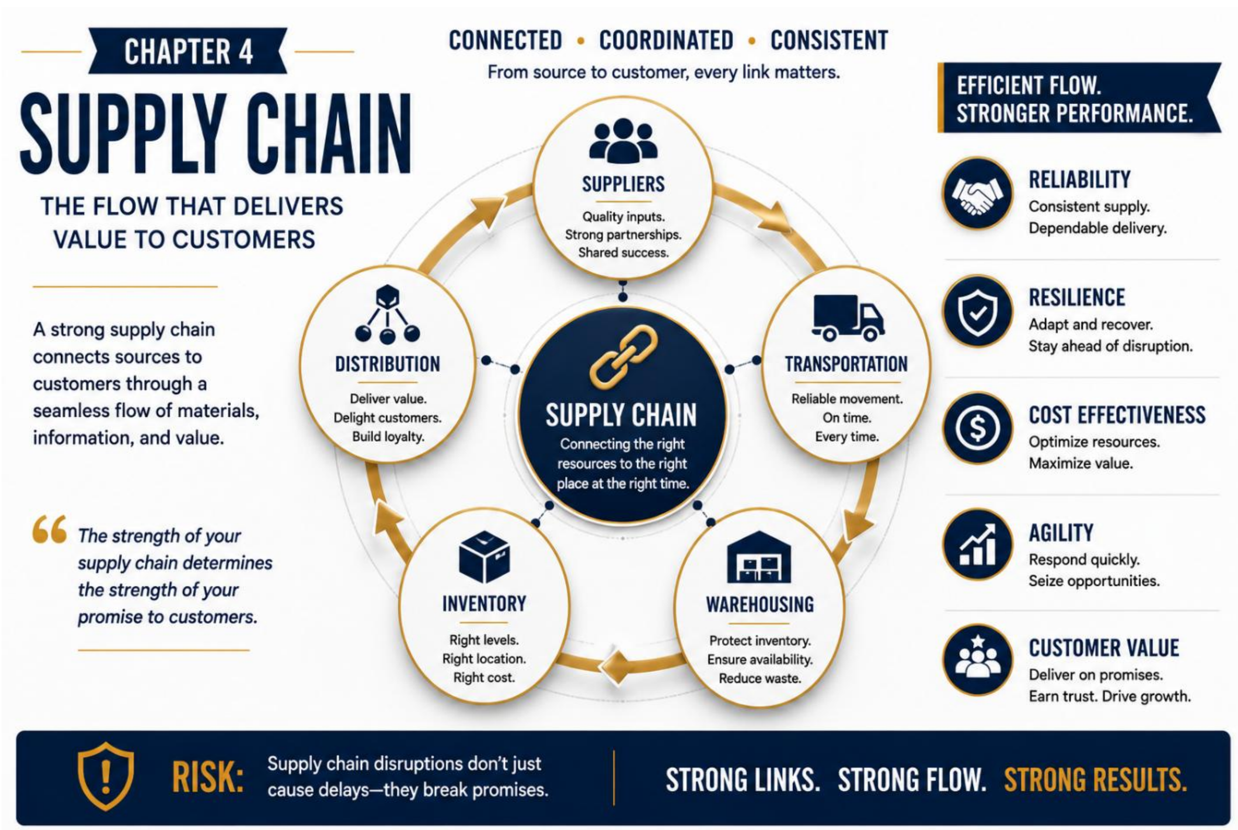
Pat spoke up. “I had a lot of close friends who were hurt when Invacare went under. What a shame for a company founded in 1885. From my understanding, poor quality led to battery fires in their motorized wheelchairs, and a lack of above-board interaction with the FDA resulted in a consent decree that essentially stopped their main product line.”

“That is a good summary, Pat. We are going to spend a lot more time talking about ‘Culture.’ A company with a great culture should not have problems with quality, customers, or regulators. Who wants to identify the possible One Minute Goals?”

Jim offered to go first. “I will work to get the alternate material approved by Regent.”

“Operations will ensure that production can run the materials once they are on hand … with zero delay to the customer.”

Nodding his approval, Davidson concluded, “I appreciate your hard work in taking care of Regent!”



LESSONS LEARNED

- Supply chain risk extends beyond vendors to include materials, logistics, and distribution.
- Geographic concentration increases vulnerability.
- Efficiency without resilience creates fragility.
- Alternate suppliers and substitute materials should be identified in advance.
- Cross-functional collaboration accelerates problem-solving.
- Regulatory developments can quickly alter the operating environment.
- Strong customer relationships create flexibility during disruptions.
- Organizations that prepare for disruption recover faster.
- The most important lesson is that supply chains are built on trust, with suppliers, employees, and customers.

CHAPTER 5 – IT'S ALL ABOUT THE CUSTOMER

Davidson could not sleep that night. His mind could not stop thinking about the events of his first two weeks on the job. While the Board of Directors had been pleased with how he had handled the recent blackout and cyberattack, Davidson knew it was his job to steer the ship around the icebergs. He knew from his MBA studies that most companies go out of business because of a lack of capital or cash flow. After the blackout, Davidson worried about the impact of losing their sole-source position with Regent, their largest customer. He grabbed the notebook off his nightstand and, using the light from his Garmin watch, jotted down a note for tomorrow. "All hands-on deck, protect Regent and grow five more." With that thought safely captured, he could drift off for some much-needed rest.

The American Spring executive team received an early morning email from their boss. "Please clear your calendars for the next two days. Join me at the Rockwell Trout Club's conference room at noon. We will start with lunch. Bring your innovative minds."

First Quarterly Offsite

The team arrived at the Trout Club shortly after 11:30am. Located on 125 acres near the town of Castalia, the Club's streams were fed by an aquifer that supplied a constant 50 degrees of fresh water. The Club, formed in April 1900, was a special place. The chance to grab a fly rod and walk the serpentine stream was pure therapy … something Davidson desperately needed right now.

The Club was one of Davidson's favorite offsite locations. In his previous assignment, he had held many of their quarterly offsite meetings at the Club. He had planned to hold their first offsite next quarter, once they reached calmer waters. However, concern about potentially losing their best customer prompted the last-minute meeting.

Davidson waited for everyone to grab their lunch from the restaurant before heading into the conference room. As the team sat down around the horseshoe table, they read the quote from Patrick Lencioni on one of the large whiteboards, "Great teams do not hold back with one another. They are unafraid to air their dirty laundry. They admit their mistakes, their weaknesses, and their concerns without fear of reprisal."[15]

"As you already know, I am a huge fan of Patrick Lencioni, Ken Blanchard, Simon Sinek, and Jim Collins!"

"What about Matthew Kelly?" asked Anna.

"He is my personal and professional favorite. His Dream Manager and Rhythm of Life are classics.[16,17] You already have The Go Getter, New One Minute Manager, and Good Profit by Charles Kock. Yesterday, I asked Marla to order everyone a copy of Living Joy by Chris Stefanick.[18] This book is a great read and good preparation for a future offsite focused on caring for our people. Chris shares many powerful messages in this quick read. For example, "When you don't care for yourself, all you leave your loved ones is the most burnt-out version of yourself."[19] Our ability to care about others must begin at home and include ourselves. Davidson deliberately topped off his coffee to let the message seep deeper into his executive team's thinking."

Sitting back down, Davidson said, "Sorry to digress … again! A couple of ground rules before we get started. First, we need to set the ground rules for this offsite. Yes, the first ground rule is to build the ground rules… I will help with the first one. No technology during our working sessions. We need one-hundred percent focus from each other for these two days. Once we have the ground rules listed, we will take a short break. During the break, please give your staff and your spouse Marla's phone number and email. She will be our technology gatekeeper. We will reconnect to the web after cocktails and dinner. What other ground rules should we abide by?"

Tim was the first to go. "Everybody participates."

"Yes, this is a sport where everyone needs participation awards."

"Stay off technology," Nick said with a smile.

"That was just made easier by the no-technology rule. What else?" Davidson said with a smile.

"Stay on task and on schedule. And take breaks," offered Jim.

"That is several ground rules, Tim, but all good."

"Have thick skin," said Pat.

Davidson pointed to the quote behind him and said, "Yes, that is the most important ground rule. I would like to recommend two additional ground rules. First, hold nothing back. If it is relevant, share it. It does not help the team if you do not present your ideas. Everything relevant to the topic that makes us better is fair game. Second, use examples to strengthen your point, and be prepared for your assumptions to be tested. Please use specific examples that can be validated. Early this morning, I asked Nick to walk us through our customer list. He has prepared a handout listing our customers by revenue and margin for all the products they purchase, going back… how many years, Nick?"

"We went back five years."

"Also, I asked him for the Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis recently completed for our top customers. One last thing before we go on break and disconnect from the digital world."

Davidson went to the whiteboard and, with the large green dry-erase marker, wrote, 'Agenda – Protect Regent and Grow 5 More."

"With that," he said, "I will see you back at 1:00pm sharp."

Once everyone was back and ready, Nick led a detailed review of the company's customer base. The good news was that the company was profitable. The bad news was that more than forty percent of that profit came from one customer, Regent. Two other customers accounted for another forty percent of the revenue and margin. The remaining twenty percent came from more than thirty small customers.

Davidson looked around the room and asked, "What happens if we lose Regent?"

“Not just Regent but also Fairway and Independence. We lose any of the top three customers, and we will have to make a major lifestyle change!” stated Anna.

“Agreed,” said the chief executive. “We have skated along the edge of this ginormous risk way too long. Nick, how much damage did the outage do to our sole-source positions with Regent?”

“To be honest, it did not help. Their new supply chain VP has been pushing for dual sourcing since he arrived. The outage only provides more fuel to the fire.”

“We need to shore up Regent in the near term. What can we do?” asked Pat.

“Maybe we could incentivize Regent to sign a longer-term contract,” said Nick.

“Is there something we can do to calm those fears?” asked Tim.

“We could accelerate completion of the business continuity plan to demonstrate to their leadership team the steps we’ve taken to protect their supply chain,” responded Nick.

Anna recommended, “We could accelerate the annual visit from Regent to coincide with completion of the business continuity improvements.”

“Makes sense. Jim, when does our patent run out on the products they are purchasing from us?” asked Davidson.

“We have two years left on the patent. That’s not a lot of time.”

“Agreed. How are our R&D efforts with Regent?” asked Davidson.

“Not well, I am afraid. We have been struggling to meet their latest application requirements.”

“Another question for the group. What problems is Regent facing that we should be helping them with?”

The lack of response from his team prompted Davidson to rephrase his question.

“What other value can we provide them? Is there a problem or challenge they need help with?”

“Not sure we have asked them,” said Nick.

“Well, we need to start asking them. One of my favorite quotes is from Albert Einstein, ‘Strive not to be a success, but rather to be of value.’ The meaning behind the quote is that success will follow. Sounds like we have our work cut out for us in building the right kind of relationship with Regent and our other customers. Each of you has a counterpart at our top customers. You need to get to know them and understand how we can better support them. Makes sense? Marla brought a copy of the Good Profit for today’s meeting. Please turn to page 10. I cannot say it any better than Kock’s description in the second paragraph.”

MBM prompts us to focus on understanding consumers’ unmet needs and finding ways to satisfy them. We strive to do this faster and better than existing and potential competitors.[17] Davidson gave them a minute to digest the information.

“Now, let us think outside Regent and take a more strategic view. What can we do to minimize the risk of losing one of these three customers?”

“We could broaden our portfolio of customers. This would reduce our reliance on the top three,” said Anna.

"And broaden our capabilities in adjacencies and supporting fields," spoke up Jim.

"Good to see we are thinking about increasing our capabilities and creative disruption," Davidson said as he grabbed several dry-erase markers and headed to the front of the room.

Pat got Davidson's attention and asked, "Creative disruption, boss? Not sure I have heard of that one before."

"It is basically a concept that describes how new innovations replace older, obsolete ones. We will do a deeper dive into our book club discussions. I want to update our company risk plan before we continue."

Davidson added a fourth box to the risk diagram and a new risk category, Customers, alongside the other three risks they had previously discussed, People, Infrastructure, and Technology. He then added Competition below Environmental and Society on the External influences arrow.

"First quiz, does anyone know why I added Competition?"

Nick joked, "Because they are always there?"

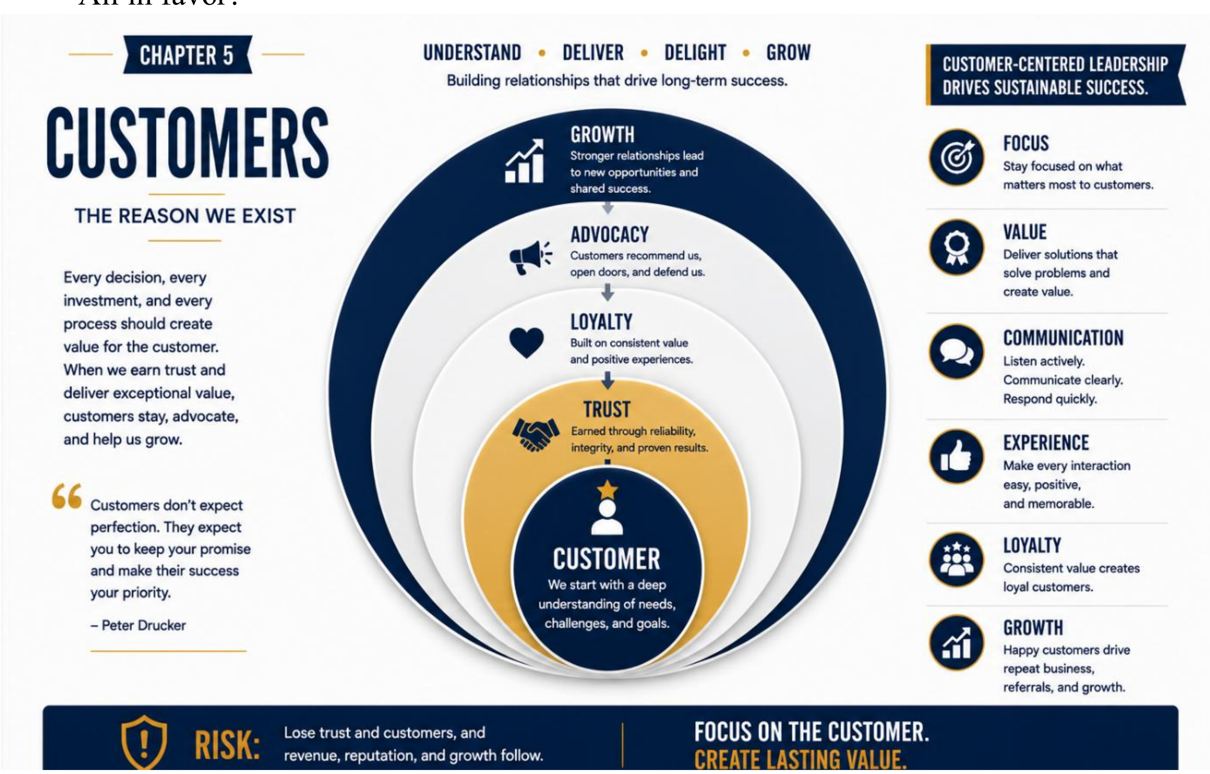
"Yes, it is like Jeff Bezos's empty chair for the customer during their meetings. We need to recognize and be diligent about the reality that there are competitors who want our customers' business. So, we need to add new capabilities faster and better than our competitors.[18]

Noticing their innovative energy was starting to wane, Davidson said, "Thanks for a productive day. Everyone did great! Tomorrow, we will start fleshing out these ideas in more detail.

In closing, our focus needs to be on continuously improving our capabilities to deliver value to customers. Now, I vote to start happy hour. Is there a second?"

Pat quickly offered, "I second."

"All in favor?"



LESSONS LEARNED

- ❖ Continually evaluate risks to your customer base.
- ❖ Develop formal strategies to broaden your customer base and reduce the risk of concentration.
- ❖ Establish formal strategies and action plans to build deeper relationships with existing customers, better understand how to provide value to them, and make it a priority. Measure your progress.
- ❖ Determine ways to lock customers into managed services or longer-term contracts.
- ❖ Implement a quarterly planning process to drive vision, strategies, and growth while managing risks.
- ❖ Identify strategies to increase the company's capabilities.

“The magic formula that successful businesses have discovered is to treat customers like guests and employees like people.” – Tom Peters

CHAPTER 6 – CULTURE – RIGHT THINGS GET DONE RIGHT

During that morning's Daily Check-in with his chief operating officer, Davidson could sense that something was troubling him.

"Out with it, Tim! There is something troubling you today."

"It's the direct labor turnover. It is killing us. The plant managers are in a constant state of musical chairs, running most lines three-quarters full to ensure we get some product to our customers. No one is happy. Most of our customers want a piece of my flesh to chew on. I barely have any left to spare."

"Why didn't you come see me about this earlier?"

"I had planned to discuss this with you once you got settled. That was before the electrical outage, the cyberattack, and the supplier outage..."

"I get your point."

"How serious is the issue?"

"I believe it is the greatest risk we are facing. It jeopardizes our sole-source position."

"Well then, this sounds like a mission for the executive team. Please schedule an ad hoc meeting for Friday."

"Trout Club?"

"You bet. Have …"

"I know, boss. Have Marla coordinate everything. I will send everyone data on our wage benchmarks and turnover before the meeting as a pre-read."

"Good plan. Also, please send a report on all customer returns and complaints, as well as details on quality and safety, including both the OSHA-300s and lost worker days."

"Anything else?"

"Yeah, training dollars spent over the past three years. That should be a good start."

That Friday morning, the American Spring executive team met at the Trout Club to discuss employee turnover and, more importantly, culture. Davidson arrived early in the conference room to redraw the diagram from their previous risk management sessions.

He waited for everyone to settle in after grabbing their breakfast.

"I appreciate everyone changing their schedules on short notice. Tim and I thought this issue required the full executive team because it directly affects our people and customers. Now, does anyone see anything different in our risk management diagram?"

"I see that you have added Culture, with the bullets Vision, Virtues, and Core Values in the bottom-right corner," responded Anna.

"Yes, but anything else?

Since no one took the second question, Davidson said, "Unfortunately, my artistic skills have reached their limits. The green outer box was meant to be a canvas or a blanket. I was trying, less than successfully, I might add, to show that Culture is the fabric by which the company lives. Our culture needs to be woven throughout the entire fabric of our organization to be successful. It should define how we treat our own families, each other, our employees, vendors, even regulators, and, most importantly, our customers. Many of the problems we face either would not have occurred or their impact would have been significantly reduced had we been living our culture. Quality problems would not occur because of the pride and ownership of the production team … because our culture is to care about our customers. Compliance shortcomings with regulators would not have occurred because our culture is to care for the community. And yes, we would be spending ten times the amount on training and development dollars because our culture is to care for people. The cost … or lack of it … for professional development is a true indicator of the value an organization places on its people. What a different place our company could be if each of us conducted our daily work in accordance with a shared vision … a covenant."

"Wow … sign me up, boss," said Nick.

"Sorry about the proselytizing. I get a little passionate when we start talking what we *could be*."

Anna was first to respond, "Please, don't ever stop!"

"Thanks Anna! There is a quote I borrowed from my time in the Army, only instead of 'mission' and 'soldiers,' I substitute 'customers' and 'employees.' It is 'Customers First and Employees Always.' And we know that to take care of our customers, our employees need to feel empowered to make a difference."

"Could not agree more," said Tim. "That is why issues like employee wages and funding for training cut so deep into my heart. We are just not competitive with our pay for manufacturing. Beside the ethical considerations, turnover in production is making it difficult on both our customers and long-term employees."

"Was this discussed with Mr. Neverstopt?" asked Davidson."

"I pushed hard to move the scale from $16.00 per hour to $18.00 per hour based on the surrounding factories. I must have pushed him too far because he told me to never bring it up again and asked me to leave his office. That was last year. I have not brought it up since."

"So, in the two years when we had the largest profits in company's history, we did not invest back in our staff for either wages or training?"

Davidson was not sure why some owners struggled to pay their staff more, especially the direct labor. Often business leaders get mixed messages from research that downplays the importance of pay in retaining good people. This does not mean that culture, work environment, and most importantly, the relationship with management and coworkers were not fundamental to retention. Of course, they were. However, executive leaders should apply the same principles to their employees as they do customers. Customers must receive sufficient value at an acceptable price to continue to do business with a vendor. It is no different for labor. Each employee has a different value for themselves in terms of the wage rate. If their employer does not pay close enough to the market, they have a responsibility to consider leaving that job for the benefit of themselves and their families. Davidson agreed that culture was key to building and retaining a great workforce, but culture only took a family of four so far. He knew that he needed to get his staff to at least the third quartile of the competitive landscape to have long-term success in managing turnover and establish a company of 'Go-getters.'

"I don't get it either," agreed Pat.

"Has everyone had a chance to review the materials that Tim sent earlier in the week?"

Looking around the table confirmed that the team had read materials.

Nick started first, "We had already factored Tim's new wage scale in last year's price increases to our customers."

"Nick is right. The new scale is funded," supported Anna.

"Are there any reasons for not implementing the new scale?" asked Davidson.

He gave the team a few minutes to digest his question before asking, "All those in favor of the wage increase?"

There was a resounding response, "Aye's."

"It shall be done. Tim, you, and Anna work out the communication plan. We need to make sure the roll-out is well executed. Also, Anna, please reforecast the financials for year."

"Already done. I slipped them into your packet this morning."

"I love it when everyone is a few steps ahead of me! A couple of points before we turn our attention to our next topic, training, and development. I would like to give you a sneak preview for a few topics for our next offsite. Please open your copy of the *Good Profit* to page ten, again. Before we meet, please read the sections on Knowledge Processes, Decision Rights, and Incentives. These sections directly align to our discussion today. Breaking away from the traditional pay scales that lump everyone in the same bucket will be one of our toughest challenges."

"But essential if we are going to build a culture of Go-getters!" said Tim.

"Absolutely. As leaders, our goal is to create conditions where our employees maximize their contributions, regardless of role.

"These are powerful concepts and will take time to discern how best to weave them into the culture we are building. For now, on to the next order of business, training and development."

"You will find the training budget in the last section of your package," Tim said to the team.

"Boss, you will probably be shocked when you see how much we spend on training."

"How do we track it?"

"We track only employee training time lost against total production time. As you can see in the detailed P&L, the hard dollars spent on our people are less than a quarter of one percent. Honestly, not worth reporting."

"Anna, thoughts on the lack of funding for development?" asked Davidson.

"No good answer, I'm afraid," responded the CFO. "Training and development have never been a 'real' priority at American Spring. In the past, when we presented budget requests for external training, they were always shut down by Mr. Neverstopt."

"My philosophy is to back out training costs for onboarding and for training in the employee's current role. We must focus our investments on preparing an employee for the next job, whether that job is in or outside our company. Anna, please develop a new key performance indicator or KPI to track spending on training and professional development." Davidson had experienced firsthand the hypocrisy of company owners who talked a good game about valuing their employees, but only if it did not infringe too much on their balance sheet. He was a big fan of Richard Branson, the founder of Virgin Airlines. Branson believed that employees were the company's greatest assets. One of Davidson's favorite quotes from Branson was, 'Clients Do Not Come First. Employees Come First.'[21]

"It shall be done. I will set up a time to walk you through my One Minute Manager goal on new metrics for tracking training and development."

Tim jumped in next and said, "Oh, and I will draft a paragraph outlining my One Minute Goal for the wage change."

"It's important enough to merit a goal. Wage increases, if poorly executed, can have a negative effect. Do not lose sight of how important good communication planning is. Change is tough business. It's an area of my leadership style that I need to continually improve."

He could see that his team was a little surprised by his comment. They were not used to their CEO openly sharing his shortcomings with them. "I have learned firsthand through many failures that change must be well planned, implemented in amounts that can be effectively digested by the intended guests, so to speak, and must be fully aligned from the CEO, through the executive and management teams, to the newest supervisor."

Davidson knew they had a lot of work ahead to build the kind of culture where employees did not need to be told what to do but took pride and ownership of their areas of responsibility. He felt that in his previous position, he had failed to drive ownership and measurement all the way down the organization … to the floor. He had failed to develop the criteria by which every employee knew whether they were 'winning' in their daily work. This time, he promised himself that he would not fall short of helping to build a winning culture where results and caring were mutually exclusive.

This was one of the reasons he was such an advocate for the New One Minute Manager … daily review between behavior and goal. First, he planned to implement the three secrets of the New One Minute Manager. By instilling the philosophies of One Minute Goal Setting, praising, and redirecting, Davidson believed they could unleash the talents and energies of the entire team at American Spring.

He knew that his people wanted to contribute to something they believed in. That something needed a better story, and he knew just where to get help crafting that story. Most of Simon Sinek's books were on Davidson's bookshelves, none more prominently than his book Start with Why.[22] Where Blanchard's New One Minute Manager would be their guide for leading people, Patrick Lencioni's Death by Meeting and Five Dysfunctions of a Team would facilitate team success across the company, starting with his executive team.

Lastly, as the CEO, he was finally in a position to implement the five dimensions of Market-based Management from Charles Kock's Good Profit (i.e., Vision, Virtue and Talents, Knowledge Processes, Decision Rights, and Incentives)[23] This time, there were no roadblocks between him and the floor.

LESSONS LEARNED

- Define which behaviors are important in your culture and reward them.
- Hire based on character and values – then on talent.
- Define what 'winning' looks like for each employee. Have them post it and measure against it.
- Use the New One Minute Manager Secret #1 for Goals.[24]
- Demonstrate care for your people by providing the right pay incentives. If possible, align incentives with the value the employee produces.
- Invest in your people's future roles and develop their skills. One simple way is to track how much you spend on training and development.

"Train people well enough so they can leave. Treat them well enough so they do not want to." – Richard Branson

CHAPTER 7 – CAPABILITIES & POTENTIAL

For the first time since he started as CEO, Davidson had four hours of uninterrupted time to dig into the company. He had a lot to learn in a short period if he was going to lead American Spring into the future. It was like reading the owner's manual for a new car while traveling down the interstate.

At a little past four o'clock, Marla knocked and poked her head around his door. She said, "There is a young man to see you. His name is Jacob Cleary."

"That name sounds familiar?"

"He was one of the first engineering Co-op students we had … maybe five years ago."

"What's he been up to?"

"I believe he's been trying to launch his own company, some type of revolutionary spring for vehicular seats."

"Well, we'd better find time for an alum. Please show the young man, and see if he wants anything to drink."

"He is already set. What about you?"

"A hot cup of coffee would be wonderful. Thank you!"

Davidson spent the next two hours with Jacob Cleary. Looking down at his watch, he said, "Man, where did the last two hours go? One last question. Did you propose these ideas to Jim?"

"I tried to meet with Mr. Kettling several times. He made it clear that American Spring was not interested in looking at my technology."

Davidson nodded and said, "Jacob, would you be willing to come back in to meet with a broader group of us?"

"Absolutely, Mr. Davidson! That would be great."

"Please call me David. Marla will be reaching out to you before the end of the week to schedule our next huddle. Sound good?"

"Sounds great, and thanks again for seeing me!"

It was another restless night for the new CEO. Two data points kept interrupting the calm he needed to drift off to sleep. The first was the news Jim shared about the R&D efforts at Regent. The second was the lack of response to Jacob Cleary's innovative technology. As a former co-op, the least Jim or Mr. Neverstopt should have done was to meet with him. It showed a lack of common courtesy and curiosity. Davidson depressed the light button on his Garmin watch and jotted down a quick note to clear his mind and hopefully get some sleep. Note: Is our Engineering curious and creative?

Davidson set up a meeting with his head of engineering for nine o'clock the next morning. In his meeting invitation, he asked Jim to bring the current pipeline key performance indicators (KPIs) and a list of all research and development projects.

They met in the Strategy Room.

“Jim, sorry about the short notice. With all the recent challenges we’ve been tackling, I had to push our one-on-one back. I’d like an update on our pipeline and R&D.”

“No problem. I’m sure you’re still drinking from the firehose.” Jim handed him a presentation titled ‘Pipeline.’

Jim walked him through the report first, taking time to explain his predecessor’s guidance on how the pipeline should be measured and reported.

“David, any questions about the process or our current pipeline?”

“Jim, I must be honest. The pipeline looks anemic. After record profits over the past two years, I would have expected us to be far more aggressive with innovation and in expanding our capabilities. I don’t see a single new offering for the Big 3 (referring to the top three largest customers). Will we not see a revenue uptick from new products for potentially eighteen to twenty-four months?”

Taken off guard by his new boss’ comments and tone, the head of engineering tried to recover. “We have been focused on Calrex’s project.”

“Any idea when that will start to generate revenue, and how much? The pipeline report shows the project disappearing in the next fiscal year. Also, I heard from Tim that Calrex has a history of not finishing their projects with us.”

“Yes, there have been at least three major product engineering efforts that Calrex abruptly canceled.”

“And this project?”

“Unfortunately, the project has been delayed by the customer several times.”

“Is this project a dependency for a new product for them, or just an improvement on an existing product?”

“I am not sure I understand the question.”

“My question and concern is whether the customer places the same level of importance on this project as we do.”

“Not sure I can answer that.”

“Well, somebody should find out, and soon. If we are not truly helping to solve a real need, then we are spending a heck of a lot of energy and money on something that does not appear to be all that important to the customer. We must know whether it is of real value to them.”

The atmosphere in the small conference room was quickly deteriorating, and Jim Kettling was not sure how to salvage the briefing. His CEO did not give him time to recover and asked, “Please walk me through our R&D efforts.”

“We just did. Three years ago, Mr. Neverstopt combined R&D into the product pipeline metrics. He did not see the need to keep them as separate efforts.”

“And what did you think about that decision?”

“Seemed to be duplicative efforts,” Jim responded in a guarded tone.

The CEO sat back in the swivel chair and took a deep breath before responding, measuring his words carefully.

“I understand that companies have different ideas of what is and is not pipeline. To me, pipeline is an extension of our current capabilities or product sets. Normally, pipeline will monetize within a predetermined time, twelve to twenty-four months, so we can include the revenue and contribution in our financial forecasts. Whereas R&D is focused on creating new capabilities or creative disruptions. Creative destruction should take us beyond our current products and services to seek new and transformative value we can provide customers. Often, it is an innovative idea to expand our capabilities in adjacent offerings. For example, we make the best heavy-duty seat springs in the world. Should we consider buying the company that makes the seats we’re building springs for? Get the idea?”

“I had not thought of it that way.”

“Now, what about this new innovation from young Jacob Cleary?”

“We vetted his technology last quarter, but we didn’t know how it would fit into our product roadmap.”

“From what I can tell, there isn’t much on our roadmaps.”

“I understand he was a graduate of our engineering co-op program. From what others have said, he was one of the best young engineers we’ve had in our program.”

“I would agree with that. He was one of the best and brightest.”

“How many are in the current class?”

“None this semester. We have not restarted the program since COVID.”

“That was more than three years ago!” said the exasperated new chief executive.

“A couple more questions. Any R&D relationships or contracts with local universities?”

“Not since …”

Davidson answered for him, “Since COVID, got it! OK, one last question, Jim. What adjacencies or other capabilities do you want to lead us in?”

“That is a great question. Mr. Neverstopt was the visionary for the company. My job was more to execute what he thought up.”

Davidson took a few more full breaths, as if conjuring inspiration and fortitude from deep within.

“Jim, how long have you been with American Spring?”

“Nearly fifteen years, this November.”

“Jim, I know this is not easy to hear, but it is important if you are going to have a future working for me. I cannot afford to do both your job and mine.”

“Is this what the One Minute Redirect feels like?” asked Jim.

“You are a little ahead of me. As you know, the first part of the ‘redirect’ is to discuss the mistake or what did not go well, and the impact it may have on me and the company. The lack of pipelines could potentially hurt our financial performance this fiscal year and next. Even worse, it indicates that we lack the kind of relationships with our customers that we need to thrive into the future. Now, the second part of the One Minute Redirect is where I remind you that you are better than this and that you have what it takes to lead America Spring’s engineering and product development efforts. I respect and value you … as a person and a member of our executive team.

Lastly, I take responsibility for the need to spend significant time together to set clear role expectations and clarify your goal descriptions. Your primary role at American Spring is to lead us in improving our capabilities so we can produce products and services that customers want to buy from us. If we are not innovating, we are already failing. Thoughts?

"I appreciate the vote of confidence. I will do better!"

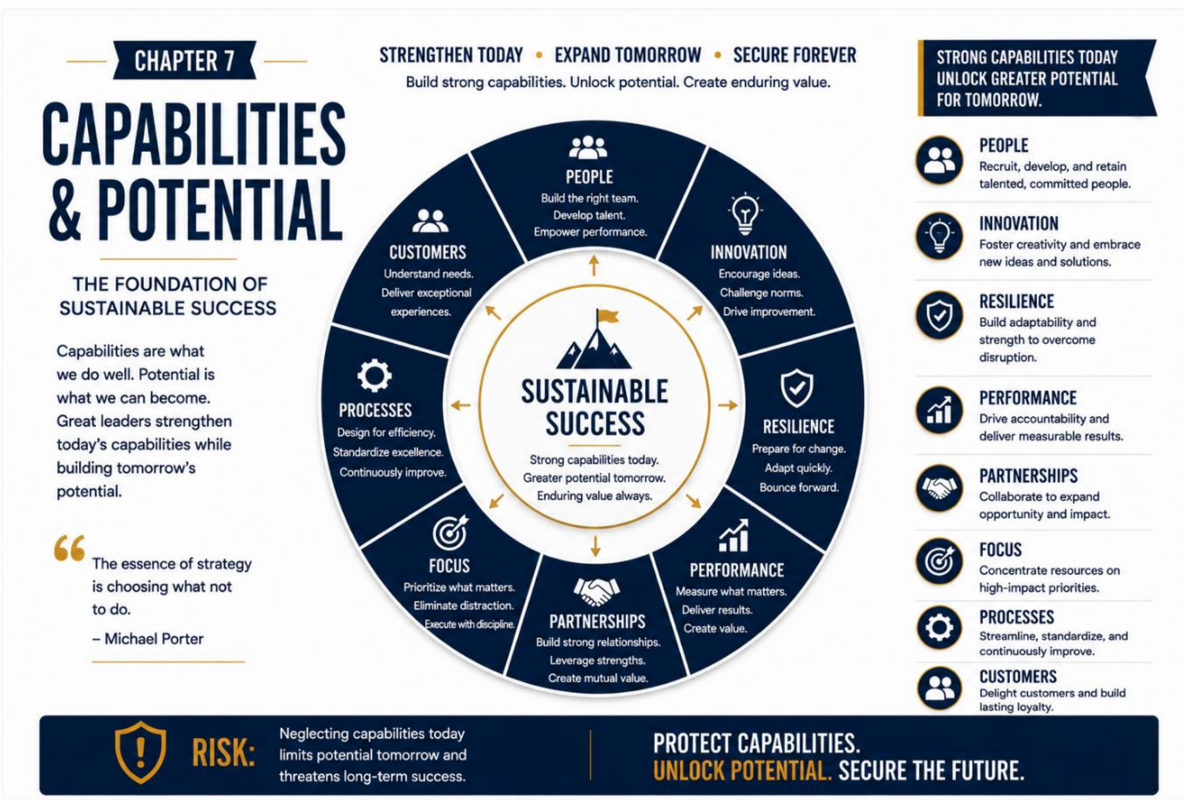
"I have no doubts. I want to share a couple more points."

Davidson got up and went to the whiteboard. He erased the Externals arrow so he could add two boxes to the right of the Inputs (People, Infrastructure, Technology, Supply Chain). Under the word Functions, he added a box called Capabilities with two bullets, Systems and Processes. To the right, he added a box called Values with the bullets Products and Services. Above the box, he wrote the word Outputs. "I hope my handwriting is not too messy to understand."

"All good," responded Jim.

"Excellent. I was planning to cover this at our next executive team meeting, but you are getting a sneak preview. The success of American Spring depends on how quickly and efficiently we can convert inputs into outputs and, more importantly, on the value a customer will pay for. The ability to convert those inputs into outputs, in the form of products and services, is based on our capabilities."

"So, this is why you keep talking about capabilities."



"It is. I would like to post this quote by Charles Kock in your office because he sums up these concepts better than I do, 'We satisfy the customer's desire whenever we have the capability to do so, and the customer confirms that value by allowing us to profit.'[13]
Last lesson for today, I promise. Have you heard of the concept of creative destruction before our last offsite?"

"To be honest, no. That was the first time I had heard of the concept."

"I am going to give you a short homework assignment for the weekend."

"Besides the 'Good Profit' by Kock?"

"Yes. There is a good article that you should be able to finish over a glass of cabernet. I found it on Forbes. It's called … Creative Destruction, or something like that. I have it saved on my phone. Give me a second to bring it up. Yes, it is called Creative Destruction: Why It Matters and How to Implement It by Kate Vitasek.[14] I was close. Creative destruction is the force behind major shifts in how consumers and businesses operate. We are both old enough to remember video stores, then Blockbuster, then Red Box, then Netflix and the world of streaming. These were major transformations in how value was delivered to customers. I know this is a lot to take in for our one-on-one. Any questions before we break camp?"

"No, just excited about building the future together."

LESSONS LEARNED

- Foster an environment of curiosity across your enterprise.
- Ensure that new product development with customers has full buy-in from the C-Suites.
- Ensure the value of the pipeline to the customer is fully understood and documented in the formal project request.
- Establish strategies for infusing innovation into the enterprise. These include co-op programs, university partnership programs, etc.
- Spend time looking and learning how to expand capabilities and drive creative destruction.
- Spend time talking with customers to discern value.

"The magic formula that successful businesses have discovered is to treat customers like guests and employees like people." – Tom Peters

CHAPTER 8 – CLOSING

Davidson decided to meet back at the Trout Club for the final wrap-up of the company's risk management planning. There was an energetic sense of accomplishment in the room. They had come together as a team just two weeks earlier, on the heels of their first crisis. In some ways, it felt like a lifetime ago, but in other ways, the events and challenges made the time fly by.

Davidson, or more likely Marla, had prepped the room earlier that morning by taping up a large computer-printed diagram from their sessions.

Pointing to the diagram, Davidson said, "The team did a nice job reading chicken scratch, Drew. Please convey my appreciation to your team!"

"Will do, Boss."

"Alright, now that we are sufficiently lubricated with caffeine, I wanted to start this morning's session with a question. What is the essence of risk management?"

Jim was quick to answer, "It's about protecting and growing our capabilities to deliver value that a customer will continue to buy."

"Pretty hard to argue with that, Jim," said Davidson.

"Those values represent the products and services provided at a price and quality level the customer accepts," said Pat.

"And hopefully, not looking for an alternate source or supplier," added Anna.

"Yes, protect the Holy Grail of sole source," Davidson quickly added.

"I believe our risk management planning has highlighted the importance of capabilities to me," said Nick.

"In what way?" Davidson asked.

"Capabilities provide our ability to serve both our current and future customers. If we maximize our capabilities to deliver more products, we will not only increase revenue but also improve our margins."

"I love the sound of that," said Anna.

With a smile, Pat said, "Spoken like a true CFO."

"I agree with Nick," said Jim. "I can see how important capabilities are to creative destruction. We need the capability to deliver innovation."

Davidson nodded. "Excellent, Jim. We must continually improve our current products while focusing energy and resources on the future. All of us need to be students of creative destruction. I like to call that our potential. Like the people who make up American Spring, we are protecting future potential."

"We don't want to be stuck with thousands of big red boxes," laughed Tim, referring to the bankrupt Redbox company.

Tim continued, "I have a much greater appreciation for what can impact those capabilities."

"Please expand on that for the group, Tim," said Davidson.

"Over the past several weeks, we have battled through multiple impacts on our capabilities and core functions. Adverse impacts on critical inputs, such as people, infrastructure, technology, and the supply chain, have hurt our ability to produce outputs for customers. Unfortunately, these have placed several customer relationships in jeopardy."

Anna added, "Also, we have seen how external factors, such as the environment, society, regulation, and competition, affect those critical inputs."

"The resulting impact of these influences should be viewed through the lenses of severity, timing, and the probability of occurrence. We cannot afford to resource and formally prepare for every risk. So, we need to focus on protecting those capabilities that deliver most of our products. Okay, one last question before we go on break. What is the most important component to protecting our capabilities and future potential?"

His executive team spent several minutes pondering the question before Nick offered a response, "Our Culture."

"Great job, Nick!" said Davidson.

"We cannot protect and enhance our capabilities, deliver quality products on time, and provide the kind of value that retains and grows customer relationships without the help of everyone at American Spring. Our culture is the fabric that protects our current capabilities to deliver value and provides the springboard to achieve our future potential. Lastly, our culture is what ensures that the right things get done right."

Davidson looked around the table and could not help but feel proud of the progress his executive team had made in the past three weeks.

He said, “Time to put some meat on the bones, so to speak, on making more Top 5 customers. Are we up for the challenge?”

The team responded in unison, “It shall be done!”

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