
Promoting a System's Approach to Natural Disaster Preparedness Planning: Rating Businesses for Their Resiliency Capacity

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ABSTRACT

Based upon a survey of managers in the private sector, those in senior executive positions are perceived as being somewhat removed being active participants in community-wide natural disaster preparedness planning. Resiliency contracting combined with adapting present business rating systems are proposed as a mechanism that can result in an array of new partnerships not only among businesses, but between firms and governmental agencies, community planners, and non-profit disaster relief organizations. These new partnerships should result in re-shaping natural disaster preventing planning strategies thus strengthening both community resilience and organizational sustainability.

Keywords: Business resiliency, natural disaster recovery, natural disaster preparedness, resiliency contracting.

INTRODUCTION

Federal, state and local authorities each play an important role in natural disaster recovery, such as those related to tornadoes, flooding, hurricanes, blizzards and earthquakes. At the Federal level, current policies emphasize funding primarily for a quick recovery. Federal natural disaster assistance includes over 70 Federal disaster assistance programs to assist households, businesses, and state and local governments (Skidmore, 2013). These programs generally include direct grants to communities to remove debris and to rebuild. The cost to rebuild has elevated to billions of dollars per year. As an example, in October 2012, Super Storm Sandy caused nearly \$50 billion in property damages and claimed 72 lives (Skidmore, 2013). As the frequency and severity of extreme weather events grow, the cost of simply focusing on recovery practices led by the Federal government can be expected to increase substantially. Much of this Federal funding has focused upon supporting disaster unemployment benefits, mental health and legal services, environmental cleanup and infrastructure reconstruction (Skidmore & Touya, 2013).

In this regard, the number of significant natural disasters has increased substantially since 1953 when there were less than 20 declared natural disasters. In the year 2011, there were nearly 100 declared (US General Accounting Office, 2012). Currently, in May 2015, a series of extreme weather conditions including tornadoes and flooding wreaked havoc from the Gulf of Mexico to the Great Lakes (Jervis, 2015). In the city of Houston, Texas, almost a foot of torrential rain fell in one day, resulting in massive flooding, damaged homes and businesses, and a number of deaths. The infrastructure in the regions surrounding the fourth largest city in the USA, Houston, suffered considerable damage. Correspondingly, a tornado in nearby Mexico killed 13 during the same period of time (Madhani, 2015). The repercussions from severe weather alone, such as the recent extreme snowfall in New England over the winter of 2015, was one of the factors that contributed to the U.S. economy shrinking 0.7% in the first quarter of the year (Benzamin, 2015). Similarly, according to economist Paul Ashworth (Davidson, 2015), the extreme severe weather conditions in the Northeast during the past winter was a significant factor, among others, in disrupting the operation of many businesses both large and small resulting in great hardship to employees and their families. The lack of collaborative planning becomes evident when the needs of business and community residents overwhelm services provided by public agencies that are available to assist in the recovery process.

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Indifference of Senior Leadership to Directly Engage

Indifference on part of the senior leadership of businesses to become active players in community planning for preventing massive destruction from a natural disaster may be a factor in the ability for cities and towns across the country to prepare for such events. Based on a sampling of 120 derived from a survey form sent to 500 managers located in large, mid-size and small companies in the United States in 2012, there appears to be a disconnect among senior executives through their distancing of themselves from being active role players in organizational and community planning to prevent massive destruction from a natural disaster (Morrison, et.al, 2012). The findings of the study revealed that CEOs are not generally perceived by those in the managerial ranks as being effective in the process of planning, reviewing disaster plans in place, or putting effective rescue procedures in place to protect employees (See Table 1). Delegating disaster planning to those in the managerial ranks by the senior leadership generally has not resulted in the raising of confidence among co-workers for feeling confident in dealing with a catastrophic natural disaster. The same study also revealed that senior leadership was not actively pursuing external organizations or agencies in the public or non-profit sectors for designing plans to integrate available resources into an effective preventive plan (m = -.35)(Morrison, et.al, 2012).

Table1.Overall Frequency Distribution of Perceptions of Managers of the Effectiveness of Their CEO Overseeing Natural Disaster Preparedness (N=120)

Survey Items	Rating Scale ^a				
	-1	0	+1	Mean	Var.
CEO Proactive in Nat. Disaster Preventive Planning	78	5	37	-.34	.849
Effective Rescue Procedures in Place	78	7	35	-.36	.820
Directly Participates in Community Planning Externally	78	4	34	-.35	.857
Regularly Review of Disaster Preparedness	70	21	29	-.34	.714

Note: a: -1 = disagree; 0 = no opinion; +1= agree

In Table 1, the four negative mean scores (-.34, -.36, -.35 and -.34 respectively) revealed that those in management perceive their senior leadership as being somewhat removed from the realities of possible repercussions from a natural disaster. Therefore, it appears the senior executives in private sector organizations are not viewing themselves as needing to be personally involved by providing direct leadership especially in terms of becoming major players in preventing massive destruction of the community from which they operate. While the private sector depends on resources and support of government at all levels to build an infrastructure (ex., roads, airports, shipping ports, etc.) to support daily operations, these leaders also appear to be relying on government to take on the primary burden of generating recovery practices to get communities back on their feet (Skidmore, 2013).

In addition, an intriguing issue is that federally led disaster relief may be significantly dampening incentives for businesses and households to take responsibility for adopting appropriate risk reduction measures. Why invest in preparedness when one knows that Federal assistance is available should a disaster strike? Senior leaders in today’s companies, knowing that they can rely upon governmental services and subsidies to recover from a disaster, have little incentive to devote their own time and effort in planning to avoid the massive destruction from a natural disaster (Skidmore & Touya, 2013). When leaders focus upon assuring shareholder value, resources are not committed to planning for an event that may never occur. The question that begs to be answered is what new incentives may be generated to encourage senior leaders in today’s organizations, whether a large corporation, mid-size company or small business, to become more personally committed to driving community-wide preventive planning in advance of a possible natural disaster?

Long Term versus Short-Term Thinking

How do we balance, in a capitalistic economic system, an organizational leader’s traditional short-term focus on shareholder value with long-term responsibilities for community preservation? Economist Milton Friedman (1961), awarded the Nobel Prize in economics in 1976 and a notable professor of free market theory at the University of Chicago, proposed over 40 years ago that there is only one objective of business and that is to use its resources to engage in activities to increase profits. In his view, business leaders have no obligation to engage in activities that distract their attention away from generating profits. The role of the business community was to create wage earners who in

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turn would generate taxable income that could be used to build schools, community policing, and the infrastructure required to support a local community (Friedman, 1961). Therefore, the ultimate outcome for a leader has been creating shareholder value (success is equated with profits) that became the benchmark for success. Actively partnering with communities to assist in preventive planning to limit the destructive impacts of natural disasters was beyond the responsibilities of organizational leaders, according to Friedman (1961). Therefore, over the next 6+ decades into the present, this framework for measuring success plays a substantial role, with the planning, if any, for coping with natural disasters basically conducted internally to best protect the interests of the organization itself.

However, soon after Friedman’s theory of capitalism took effect in the 1960s, Peter Drucker, recipient of the President’s Medal of Freedom, proposed a different framework for capitalism that suggests that the objective of business is to not only to create wealth but to serve the needs of citizens in surrounding communities (Drucker Institute, 2015). His philosophy contradicted Friedman’s economic framework in the 1970s by proposing relativity between the value of long-term planning being as equally important as short-term shareholder value, a position also taken by So porito (2015) in a recent Time Magazine article.

Similarly, the Business Roundtable, a group of CEOs of major USA companies, issued a report on Company Stakeholder Responsibility that called for more involvement with what it defined an expanded version of a corporations’ major stakeholders, a group that goes well beyond the owners of its stocks (Kaufman, 2015). Viewing stakeholders as more encompassing than being shareholders, this report suggests that today’s leaders need to perform in the best interests of employees, customers, suppliers, and community residents through an integrative operation, resulting in a new kind of partnership. According to this same Business Roundtable Report, the future of capitalism can be perceived as a system of social cooperation where individuals working together create value for each other. In this sense, business is an enterprise with moral ramifications (Kaufman, 2015).

Moving to Activist Leaders with a Moral Commitment

In this regard, an issue to be addressed is how can we avoid the collision between a leader’s need for generating profit and the need for community preventive planning for reducing the destructive economic impacts resulting from natural disasters? Specifically, how do we off set the emphasis on short-term shareholder value that is promoted by financiers who would prefer to break up a company rather than invest in its long-term survival? An example of this collision that exists today is the current on-going battle between the CEO Ellen Kulman of DuPont Co., focusing on long-term planning that includes enhancing the quality of life of residents in Wilmington, Delaware, its home base, and that of Nelson Peltz of Trian Management, a hedge fund, focusing on short-term planning for enhancing shareholder value (Beveridge, 2015).

One intriguing mechanism to change the debate is a new moral commitment by significant business rating systems, such as Dun and Bradstreet, Moody’s, or the Better Business Bureau, that ranks senior business executives using as part of their assessment criteria organizational effectiveness for leading community-wide planning for preparing to prevent massive destruction from a natural disaster. By revising current private sector business rating systems, a new breed of leadership activists will likely emerge who combine a long-term strategy for becoming an environmental steward, an anchor of local communities, and a protector of ecological resources with that of preserving shareholder value.

Since most companies are currently highly networked via supply chain through technology and the Internet, using business rating systems will likely result in the emergence of an expanding moral commitment by one company holding another accountable for being active in community planning. The actual support particularly required to manufacture products is received through networking that is often formalized through legal contracts. This provides long-term stability for an organization engaged in just-in-time manufacturing. For example, in the automobile industry, parts to an automobile are gathered and sequenced into making of the automobile without having to finance a huge inventory. The process of ordering, purchasing, delivering, and using parts depend on a highly networked operation. However, having a disruption in the supply chain can have remarkable damaging results from a partial shutdown to total destruction. In this regard, assessing business performance by notable rating services by ranking success through the partnering with community planners to reduce the impacts of a massive natural disaster may serve as a catalyst for redefining success.

A System’s Orientation for Holding Business Leaders Accountable

Based on this networking of support processes, it is important that a corresponding resiliency policy also be put into place to assure continuity of service. Since a natural disaster can disrupt business operations and put employees out of work for a substantial period of time, thus also disrupting the lives of their families and fellow community residents where they reside, receiving continual support from key employers is essential. In this regard, it is to the advantage of leaders of corporations to enter into performance-based contracts which are based upon actual performance--and not simply a promise to perform. In order to avoid a catastrophe resulting from sudden downtime due to a natural disaster, it is critical for leaders to verify that any partners and suppliers, including themselves, can meet their obligations (Cohen, et.al.2014). In this instance, those along the supply chain are paid only if they perform. This puts a lot of pressure on suppliers to establish practices and policies that guarantee resiliency on their part. Therefore, entering into resilience contracts with every company along the supplier chain assures that sustainability can be a reality, even through a natural disaster. Leaders of large corporations, mid-size companies, and those of smaller size all are motivated to prevent a natural disaster from disrupting their ability to perform. Aligning oneself with a company that does not plan for disruptions beforehand would be reckless. Therefore, through a legal binding strategy, this may be a complementary mechanism for encouraging leaders in all companies to become more resiliency conscious with their operations. Since business leaders know that they will be rated on a criteria assessing collaborative community planning, they will likely become more personally accountable for engaging others in natural disaster preparedness.

Accordingly, boards of directors based on this win-win framework under a new style corporation will require their senior leaders to enter into contracts only with organizations that have prepared for disruptions to avoid massive repercussions such as a natural disaster striking suddenly. As part of this movement, a new business rating system could indirectly encourage boards to hold themselves accountable for developing resiliency plans. In this regard, the U.S. Chamber of Commerce or the Better Business Bureau, etc., could assimilate into their rating criteria a community planning resiliency disaster component that reflects the moral character of the leadership in an organization. The movement of business rating systems to include an assessment of a moral commitment by leaders in the private sector to prevent massive destruction of facilities, operations, and community infrastructure would also provide assistance to the federal government efforts to reduce costs of such events in the future. Other rating systems such as those published by Fortune and Barron’s that typically rank success based on revenue, earnings growth, and total return to shareholders can add to their criteria organizational contributions to the common good to encourage leaders to take the initiative to become active participants in community-wide planning. In the past, these rating systems have been promoted as part of their mission to inspire corporations, and specifically their senior leadership, to make the world a better place to live. In other words, the definition of success in rating systems needs to go beyond that of simply monetary gain and value to shareholders.

Acting on Behalf of the Common Good

In connecting organizational objectives in the private sector to the common good, there is a need for a change in values among leaders who set direction for their companies, no matter how large or small. Values that hold the common good as a major component of decision-making may generate new approaches for today’s leaders as they contemplate, in this instance, planning for reducing the effects of a natural disaster upon both the organization and the surrounding community. Revising existing business rating systems or developing entirely new ones will likely encourage our decision-makers to adopt practices that benefit not only customers and investors but the general public can producing a win-win situation. Having all organizations, large or small, participating as partners may result in the better allocation of resources that may also be enhanced by contributions from those planners in the public and non-profit sector as well. Friedman’s focus on the importance of generating profit is an intriguing approach for allocating resources; but without a moral framework that looks at the whole system, planning for the common good is not likely to occur.

Building a new degree of trust among our leaders especially in the private sector who are looking after the best interests of both their organization and the welfare of society requires a new way of thinking. New solutions such as implementing a business rating system that urges our leaders to network through resiliency contracting or other innovative mechanisms may be somewhat intrusive but also

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maybe symbolic of a new kind of partnering. It is suggested here that it may be better for leaders in the private sector to act on their own initiative to accomplish an important goal for themselves, as well as the general society, rather than to ignore the reality that natural disasters may strike at any time anywhere. While important, the fact is that our senior executives appear to be focusing on individual welfare rather than community preservation. Therefore, there is a societal need to find new ways to bring people together for the common good.

CONCLUDING COMMENTS

Resiliency contracting combined with adapting present business rating systems may be the mechanism that promotes a new partnership not only among businesses, but between firms and governmental agencies, community planners, and non-profit disaster relief organizations. These new partnerships should result in re-shaping natural disaster preventing planning strategies, thus strengthening both community resilience and organizational sustainability. While leaders in the private sector often partner with each other throughout the supply chain, this resiliency testing within organizations can re-shape the focus on how to allocate resources to prevent the destruction from a natural disaster. Using formal contracting to ensure resiliency, businesses should become more responsive to community needs, enabling them to survive natural disasters and at the same time assisting communities to bounce back quickly using less resources. In aggregate, rating businesses for their resiliency capacity will likely generate a new movement in the private sector that results in more effective ways for reducing the effects of natural disasters upon the everyday lives of both workers and citizens. Modifying existing rating criteria can bring community sustainability to the forefront as this nation seeks solutions to preventing massive destruction from a variety of lurking natural disasters.

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