

**A Managing in Complexity Series Seminar on
“Planning for and Managing Crisis”
by Mr Lam Chuan Leong, Ambassador-at-Large, Ministry of Foreign Affairs
and Senior Fellow, Civil Service College
26 April 2010**

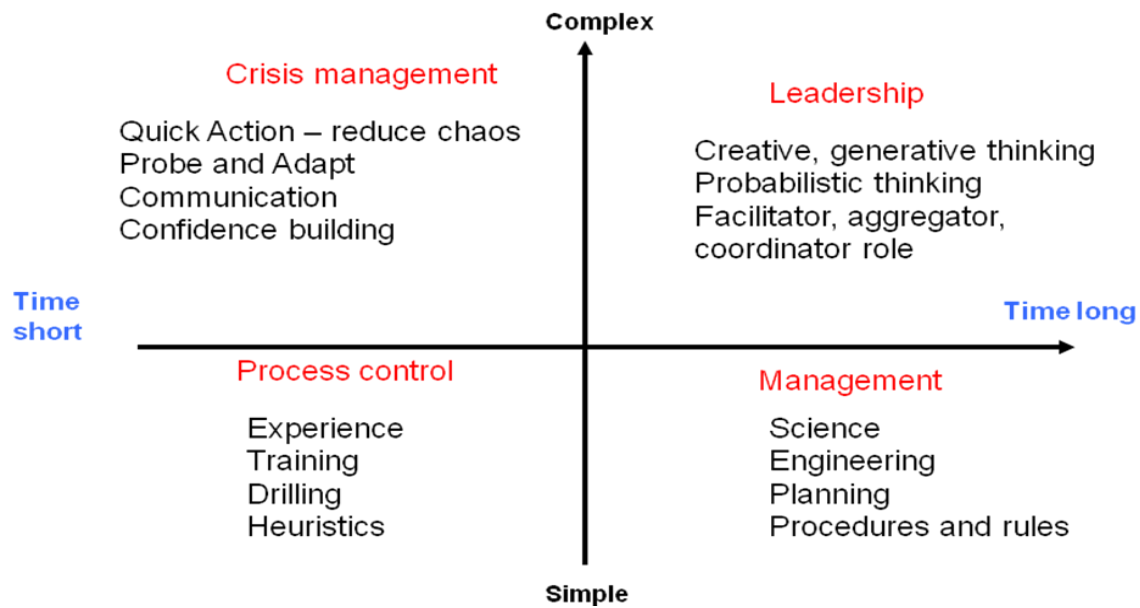
Mr Lam was at the Civil Service College to share on crisis planning and management. He expounded on the nature of crises, mostly focusing on the aspect of uncertainty in crises, and how individuals and organisations may be better prepared to deal with its attendant challenges. The following summarises the key presentation points and the question and dialogue session that followed.

Characteristics of Crises

Mr Lam explained why crises are typically problematic:

1. They are fast; they compel decision makers to act under time pressure
2. They unfold in a complex and dynamic ways, i.e. outcomes cannot be predicted in advance even if they seem obvious in retrospect. The cause and effect relationship is not wholly random but neither is it strong or well repeatable. The environment continually shapes actions, and the actions continually shape the environment. Therefore, technical solutions built on static systems and predictable outcomes (for example in engineering and hard sciences) cannot suffice. No amount of analysis equips decision makers with certainty of outcomes. On the contrary, they should not be surprised at “emergent outcomes” which may be wholly novel and unexpected. In a crisis, it is more gainful to think in terms of probabilistic outcomes or alternative futures, rather than depending on the past to repeat predictably. Complexity is the main source of uncertainty in a crisis.
3. They usually lead to adversarial outcomes, even if its origin is non-adversarial in nature. Mr Lam cited the recent flight disruptions across Europe which followed Iceland’s volcanic eruptions. Although the cause of the crisis was not hostile - unlike the September 11 attacks - it resulted with host airlines that planned to sue respective governments for their losses. Crises tend to result in adversarial outcomes because gains, losses, and a redistribution of power are involved.

These characteristics combine to create a volatile mix that requires a different management style from challenges in other contexts (see diagram below). Managed poorly, crisis situations easily descend into chaos. Therefore, Mr Lam pointed out the first priority must always be to staunch the crisis as quickly as possible. Of all decision making situations, Mr Lam noted that crises required the greatest skill. It is not easily taught despite the proliferation of leadership and management courses



Prevention is the Touchstone of Crisis Management

How can a crisis be managed? Mr Lam argued that the best crisis management is to avoid one. He emphasized that prevention is under-rated, and detailed on two critical means of crisis prevention, through:

1. managing boundaries, and
2. thinking for the future.

He shared that Singapore has done well in both areas. Although Singapore is labelled by some critics as a sterile nanny state, its policy choices are shaped by the priority to reduce the probability instability arising from domestic crisis and strife. This has led to relatively stable and crisis-free outcomes. This is an outcome that benefitted social life and in particularly business life and has enabled foreign and local investments to prosper.

Boundary management is about establishing the rules of engagement. When this is well managed, volatility can be controlled. Sound institutions play an important role. In the absence of rule of law and its enforcement by the police and law courts, many conflicts may be settled in less orderly and amiable means.

Some aspects where Singapore’s boundaries are tightly managed include the areas of race and religion, political engagement, and media policy. *It is impractical to manage everything in a complex system but it is possible to set boundaries.*

In media policy, Singapore circumvents potential crises by fixing boundaries around how the industry operates. The cartoons that satirised the Prophet Mohammad, which were published and then defended as an example of freedom of speech by the Danish press. We would probably have taken the view that such expression would be highly disruptive and avoided the subsequent backlash. In contrast to the western media, which favours unbridled expression of any form of

thought and opinion as a form of adversarial debate, Singapore sees the press as playing a critical role in society, whose reporting should be carried out responsibly and truthfully.

Singapore also invests an inordinate amount of time to think for the future. Mr Lam drew some comparisons between Singapore and Greece, which was on the verge of bankruptcy. In Greece, a woman with a child can retire at 50 and receive a pension – an unthinkable policy in Singapore. The political masters in Singapore constantly consider the long term repercussions of its policies. This has resulted in the establishment of prudent systems such as the CPF, which is constantly tweaked to ensure sustainability. While we may individually dislike these policies, they suggest that the government plans actively for the future. In contrast to Greece which is in perpetual deficit, Singapore has strived to achieve fiscal surplus over the years. Singapore practices the same long term thinking in areas such as water security and national defence. By planning ahead, Singapore pre-empts many potential crisis. Mr Lam reiterated that avoiding a crisis is the highest form of crisis management.

Free Markets Reduces the Risk of a Crisis

Is innovation however stifled by boundary controls and intentional long term planning? Mr Lam argued that innovation and emergence can co-exist - indeed flourish - under such conditions.

The key is to exert “soft control”. With the exception of laws that relate to drug trafficking, hard quotas, which generate enormous dissatisfaction, are almost never used in Singapore.

Singapore relies instead on the flexibility of markets and the price mechanism as an arbiter of resource allocation. Instances where this is practiced include the allotment of COEs, and in the water and electricity sector.

In the context of crisis management, the free market is highly valuable. A command economy may create a fixed price for commodities and provide a semblance of price stability. It is, however, artificially propped up by government subsidies. When markets shift, discontinuity builds up. Many countries that start off with cheap and subsidised water have therefore found it a gargantuan task to privatise their water industry. As prices rise sharply to reflect actual market conditions, citizens begin to object. Privatization becomes a widely unpopular, and populist politicians are voted into government. In contrast, there is greater “stability” to allow prices to adjust steadily within the free market regime.

Mr Lam shared that Singapore managed the privatization of the electricity sector in an astute way. While electricity prices were initially set by the government, the government took incremental steps to transit to a fully a market pricing system. This was deployed over a period time to reduce the impact of price changes to the consumer. Having fully transited, it is now relieved of the attendant political pressures and stressors. Nonetheless, when price fluctuations become too substantial, the government continues to step in, not by subsidizing the market but by giving rebates to poorer consumers.

Advice on managing a crisis

Crises are best avoided. Nonetheless, on occasions that they occur, Mr Lam gave his advice on mitigating its effects.

1. **Create an effective information gathering and monitoring system.** A lot of crises spin out of control because of an inadequate reporting system. The H1N1 crisis produced panic because of the poor reporting system in Mexico, which led to all kinds of guesswork with regards to the level of contagion and fatality. Uncertainty and rumours amplify crises. Without reliable information, decision makers cannot ascertain the extent of the crisis. Such core competencies are essential. During SARS, Singapore was able to implement more effective quarantine measures (compared to countries like Hong Kong), because it maintained a core capability of contact tracing that was supported by an elaborate command and control system.
2. **Evaluate the crisis from the perspective of potentially adversarial relationships.** Who gains and who loses as a result of crisis? What will or can amplify the crisis? What can dampen the crisis? What is the alignment of the different stakeholders? What sort of interest do outsiders, organisations, civil society groups and the media have in the crisis? How will they see and portray the crisis? Mr Lam stressed that it was important to understand the psychology of the stakeholders involved.
3. **Conduct experiments; make quick course corrections.** In an unpredictable complex environment, Mr Lam argued that mistakes cannot be avoided. Decision makers will be more effective by conducting experiments and making course corrections quickly. He shared how Toyota learnt from its recent crisis. Blinded by its immaculate track record, Toyota dismissed many customer complains about its cars. As criticism built up, it quickly changed its position, acknowledged its mistake, and proceeded with massive vehicle recalls. Mr Lam commended Toyota for its quick learning response.
4. **Get experienced expert advice.** Although outcomes are unpredictable in a complex system, ironically past experiences can serve as a useful guide. Singapore responded well to SARS because of past contingencies. Likewise, Singapore responded well to the swine flu pandemic because the memory of SARS was still fresh and the populace remained vigilant. Nonetheless, Crises are easily politicised, Mr Lam noted, and while it contains both opportunities and threats, the beneficiaries and victims are not always the same party.
5. **Never assume events will evolve linearly from past trends. Top management should help to identify counterfactuals and new hypotheses** so as to direct the search for data and evidence. The value of the research director in a R&D lab or CEO of a company is to point towards new directions. Mr Lam conceded however, that organisations only invest resources after a product has shown positive returns. The role of looking out for new directions, Mr Lam reminded the audience, must come from the top leadership.
6. **Nurture diversity in teams and views.** Organisations should create networks to gather inputs from other local actors who are usually the best source of different hypotheses,

assumptions and frames. Companies for example would get lots of useful ideas from customers but they usually do not. Feedback only works if organisations pay attention to them. Mr Lam also suggested having minority or dissenting teams if issues are critical and ambiguous. Expanding capacity to build “spare” capabilities is required.

7. **Manage risk.** Finally, never take a course of action with the slightest risk of a disastrous failure outcome from which you cannot recover from.

Questions and Answers

Participant: Can you share an anecdote of a crisis you encountered during your career?

Mr Lam: I can think of the SARS episode as an example. In retrospect, I suppose what I would do differently is improve the reporting system which was geared to deal with food-borne and vector-borne diseases. We needed to expand the system to enable a personal to personal transmission contact tracing system. Media management was done quite well at the political level. There was no panic on the whole. People trusted the government. Our health system had sufficient skills and capabilities to cope with this unexpected crisis. This is a good example of resilience. So I would say that SARS did not develop into full blown crisis because people trusted the government’s ability to handle the problem. We didn’t go to the extent of wearing masks everywhere like Japan, because we believed it would strike public fear. The issue was not politicised either.

Participant: When it comes to working with the media, is there any instance where you feel we could have done a better job?

Mr Lam: We have a unique relationship with the media in terms of our congruence and alignment of views. Our citizens and media understand the crucial role of the media in preserving the success of this symbiotic relationship. The western media has a different value system and describes us as having a state controlled media. But we should choose a system which works for us.

Participant: We have been encouraged to foster diversity and seek bottom-up views. But after many years of studies, researchers have still been unable to ascertain the quality of signals that point to an impending crisis. What criteria do you think is good enough to help us differentiate between weak signals versus random noise?

Mr Lam: Signal detection is a complete subject in itself. Most of the current research is based on repeatability and cause and effect. But when dealing with complexity, it is hard to find what is rigorous. In a complex environment, emergence is more important than rigour. We cannot re-run as crisis as an experiment to discover what would happen; we cannot repeat events and say what actions will definitely lead to what outcomes. One important contribution to weak signal

detection is to increase sensitivity to alternative scenarios. Leaders play an important part in the process of discovering alternative scenarios of futures because they have the widest point of view. When you have enough alternative views, asked enough alternative questions, questioned your assumptions, you are more sensitive to newly emergent trends that could lead to a crisis. But we have seen just now that there are many cognitive biases that impedes our ability to detect weak signals so it is not an easy process.

Participant: In the political system, do you think we are changing too slowly? Will it lead to political crisis? Do you think government has done enough to manage this area?

Mr Lam: I think our political leaders understand the need for renewal and the injection of new perspective. Mr Lee Kuan Yew stepped down voluntarily, which is not characteristic of most leaders. As for the rate of renewal, it is a matter of political judgment.

Participant: Can you comment on how to identify opportunities in crisis?

Mr Lam: This is a very good question. Risk management tends to focus on the negative. The reason is because the people who gather at these conferences are civil servants or corporate managers. Entrepreneurs are more geared towards looking for opportunities in the midst of crisis. When the volcanic eruptions in Iceland disrupted the local flights to Europe, as civil servants, we had to think of ways to help the stranded the tourists here. But entrepreneurs saw opportunities. In Europe, car rental and hotel rates increased sharply. This is not to say which group is better. Society as a complex system needs diverse groups of people altogether at the same. If you can integrate diversity, you will be enriched.

Participant: Can you share any methods for early identification of risk?

Mr Lam A: one of the earliest methods is scenario planning. The newer system is Risk Assessment and Horizon Scanning, also known as RAHS. They are trying to use software to connect information and datapoints to help analysts see the big picture. The most practical and widely used tool is Scenario planning but it is less adept at coping with non-linear emergent behaviour. There is a method called future backwards whereby you paint the best or worst scenario and work backwards - what are the things you need to do to reach the best scenario and what you must do to avoid the worst case scenario. Singapore started with the desired vision of being a safe, clean and green country; a place where things work, have an internationally open economy; a self-reliant population and fiscally prudent. Then subsequent policies are geared towards these ends whilst avoiding digressions that could lead us to the opposite negative scenarios.
