

Paradigms Lost: Mitigation and Adaptation in a Time of COVID-19

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I had a great future in my past. Years ago I had a car accident on my way to a busy day as a sales manager. I was rattled; adrenaline enhanced my anxiety. My car was totaled but still mobile. Naturally I proceeded straight to the office--a bid was due that day I had been working on for weeks. As I dizzily shared my story and angst with a friend and co-worker, he stopped me cold. Dan, he said, "You're acting as if nothing has happened. This is not a normal day. Rethink your priorities. Go see the nurse, get some x-rays, and then go home." I ignored him at first, continuing to pretend to concentrate while in denial and shock. I finally relented as I realized my friend had done me a great favor, forcing me to understand that my paradigm needed to shift. Fortunately, I was not seriously injured and the disruption to my priorities was short lived.

These are not normal days. The tale of COVID-19 is one of significant disruption; some disruption may be temporary but other paradigms may be lost forever. From the paradigm of children safe at school while parents worked, to the dreams of performance artists playing to packed concert halls, to the cities and their workers across the tourist and public events industries, to the travel and transportation industries, the interconnected paradigms of society have shifted. We now confront a new reality. Moving forward, our strategies to survive, thrive and achieve our dreams all need to be reconsidered. As in the case of another global threat, climate change, mitigation and adaptation measures define the optimal path forward.

Three fundamental steps can help us face this challenge: acceptance, assessment, and adaptation. The first step, acceptance, is to acknowledge our current reality and accept that life has changed. The second step, assessment, is to consider likely future scenarios and how those create the context, opportunity set, and obstacles to achieving our vision going forward. These scenarios move from good, to bad, to ugly, depending upon our success with mitigation. The third step, adaptation, is to integrate those considerations to revise our vision, objectives, and action plans to achieve our goals.

An aspect of COVID-19 that parallels climate change is social cost, where our individual actions affect everyone else.ⁱ It feels like a Hobson's choice: proceed with normal social interaction and spread the infection or stay at home and destroy the economy.ⁱⁱ Fortunately, the optimal path is in between the extremes. But like climate change, our collective will to address the problem is weakened by inability to sacrifice our behavioral norms to make others safe. Moreover, the strategic and tactical implications are highly specific to each individual, their industry and predisposition, much like the impact of the virus itself. Just as in the case of climate change, inequitable and asymmetric vulnerabilities and impacts demand creative and tailored adaptation of one's strategic objectives, metrics, and execution plans. Perhaps the greatest challenge and hope is that we share this journey together; we depend on each other for success.

Step One is Acceptance: Getting Over the Shock

In March 2020, Scott Berinato interviewed David Kessler, who co-authored with Elisabeth Kübler-Ross, "On Grief and Grieving: Finding the Meaning of Grief through the Five Stages of Loss." Kessler correlated the famous stages of grief to COVID-19:

"It's not a map but it provides some scaffolding for this unknown world. There's **denial**, which we saw a lot of early on: *This virus won't affect us*. There's **anger**: *You're making me stay home and taking away my activities*. There's **bargaining**: *Okay, if I social distance for two weeks everything will be better, right?* There's **sadness**: *I don't know when this will end*. And finally there's **acceptance**. *This is happening; I have to figure out how to proceed*. Acceptance, as you might imagine, is where the power lies. We find control in acceptance. *I can wash my hands. I can keep a safe distance. I can learn how to work virtually.*" [Emphasis added; Italics in original.]ⁱⁱⁱ

Each of us needs to reach acceptance in order to assess the hardships we face and take effective actions to avoid prolonging the grief associated with COVID-19. The virus will follow a course beyond the control of politicians who see themselves as cheerleaders or who believe their job is to get back to the status quo ante as soon as possible. The realist understands that the sooner she accepts the fact the virus is with us, at least for now--the sooner she will get over it, mitigate and adapt. Only then does a sense of control bring peace of mind.

Step Two is Assessment: The Good, the Bad, and the Ugly Scenarios

How long must we face this new reality? A tool used by strategic planners in these situations is to look at the present context and imagine a range of scenarios as to how that context might evolve in order to bracket outcomes and assess the likelihood and types of impacts these scenarios have on us.^{iv} The purpose is to place oneself in those future scenarios as a kind of thought experiment to decide on actions and strategies to take now that represent no-regrets in the event one of the scenarios actually plays out, and to devise the best strategy today to survive and thrive in that future world. Of course, none of us know the future, so the technique is only a tool, but once we begin to accept that COVID-19 is not going to disappear magically, no matter how mad we are at its instigation, the tool is a powerful mechanism to take control of our actions now, before the future becomes a present reality and it is too late to avoid or mitigate. Scenarios are nothing more than sketches of a range of foreseeable outcomes--they are not the future and are never intended to color the details of any one particular situation or outcome. They present a range of possibilities that help us assess probabilities, impacts, and to devise mitigation actions and adaptive strategies.

The embedded challenge with all future scenarios of how the disease will progress is that we depend on others to control themselves. This takes sacrifice, leadership, and government support. To illustrate, note how the three possible scenarios below are interdependent:

The Good: The best outcome scenario we can hope for is where the mitigation measures are followed, testing becomes ubiquitous, rapid and inexpensive; contact tracing isolates the infected and stems transmission; treatments reduce symptoms, hospital stays, and death; safe and effective vaccines are developed and deployed rapidly on a global scale. Such a world would allow a near return to the pre-COVID19 normal paradigms for society, including: economic activities, sports, performing arts, education, health care, and the ongoing search for happiness in future prospects of improvement. It would likely take 6-18 months to reach that end state, meaning there will still be short term disruption and pain, especially since the intervening mitigation measures imply discipline around social measures and a curtailment of social and

economic activity. Adaptation could mean hunkering down or expanding, depending on the impact on one's situation. But while we all hope for this scenario, hope is not a strategy.

The Bad: The bad scenario reflects an erosion or failure to achieve one or more of the above precedents--social distancing continues to face denial and anger, testing availability and delays persist, therapeutics and vaccines are imperfect or delayed. Such a world means group settings continue to pose high risk, negative health consequences linger, economic recovery sputters--livelihoods for many are akin to an economic depression. Eventually, some form of vaccine plus improvements in treatment combine with herd immunity to slow transmission and mitigate harm and fallout. A handicapped economy stumbles around the world to find a new equilibrium but jobs in the most affected sectors and the small business that support them (tourism, restaurants, performing arts, sports) are greatly reduced, partially offset by emerging opportunities in treatment, mitigation and distance solutions. This outlook could persist for 2-5 years, resulting in a new normal, with some wealth redistributed but many facing bankruptcy and dislocation. Although bad, the effectiveness of positive mitigation measures and economic actions by governments provide a safety net that avoids systemic societal breakdown and degeneration into more ugly consequences.

The Ugly: The worse the bad scenario becomes, or the more asymmetrical, the more likely it will lead to ugly unintended but linked consequences. These can range from local disturbances such as looting, shootings, theft, homelessness, hunger, blight--to more systemic consequences like mass migration, starvation, the rise of militias, right wing reactionary use of force to quell unrest, global blame exchanges leading to regional conflict or worse. Commodity demand destruction and price collapse can erode failing states further. In other words, the virus has not killed geopolitics. The ugly scenario is akin to a world at war--it could result from widespread failure to mitigate or adapt. It is not a black swan event because it is a foreseeable, even if unlikely, outcome of the current incoherent global response to the crisis.

Scenarios help us assess and mitigate risk to the choices we make today. Each scenario's likelihood depends on what we and others do to mitigate the known risks and is therefore a set of conditional probabilities and systemic interactions. For instance in a corporate risk framework to guide asset protection and investment choices one would typically seek to assess the probability, or likelihood of these scenarios. In the case of COVID-19, it is clear now that the probability of each of these outcomes depends upon, or is conditioned by what we do to mitigate transmission risk and by the success we have in therapeutics and a vaccination. So if you ask how likely it is that the situation becomes "ugly," the answer depends on how we manage the "good" responses before things get "bad." Once things become "bad," the likelihood they will get "ugly" goes up dramatically, as situations get out of control within national borders and those spill over into broader regional and international conflicts. As with any risk framework, mitigation is the key. Once mitigated, adaptation allows one to deal with the residual or unavoidable risk. Beyond the distinction between mitigated risk and effective adaptation, the scenarios help guide the new strategic directions and objectives.

Systemic interactions also play an important role in assessing impacts under each scenario. The Federal Reserve took aggressive action immediately to guarantee debt, stem panic and shore up credit and equity markets, thereby avoiding a collapse in valuations and the systemic

consequences of a run to liquidate in order to cover margins and short term debt instruments. Those actions have supported equity valuations and deferred bankruptcies. This illustrates that systemic interactions can be positive or negative. Curtailed travel reduces greenhouse gas emissions and partially alleviates air pollution, as was illustrated in the pictures capturing air quality before and during shut down periods. Conversely these shocks can create serious negative interactions, such as when mismanagement of migration drives infected persons across borders and triggers armed conflict between nations. The evolution of these interactions needs to be watched closely. Thinking strategically in a time of COVID-19, we will want to monitor signals that might reflect a devolution from good, to bad, to ugly scenarios--and the need to devise strategies resilient despite the precise pathways in which these consequences emerge.

The reality of COVID-19, while called a “novel” virus, is no longer completely novel. We know which actions help reduce transmission, which persons are more susceptible, how the transmission asymmetrically affects those exposed at the front lines, and how the elderly and those with some co-morbidity can develop the most severe symptoms or might succumb to the disease. We know that hygiene, masks and social distancing reduce transmission. We know that countries that have engaged in rapid testing, contact tracing, and isolation of those infected have demonstrated the most success in containing the virus. We know that crowds indoors pose the greatest risk of spread. We know that returning to our normal lives without taking proper precautions exposes everyone to uncontrollable outbreaks. We know that those without the economic choice, or whose career and livelihood give them greater exposure are more likely to become infected.^v

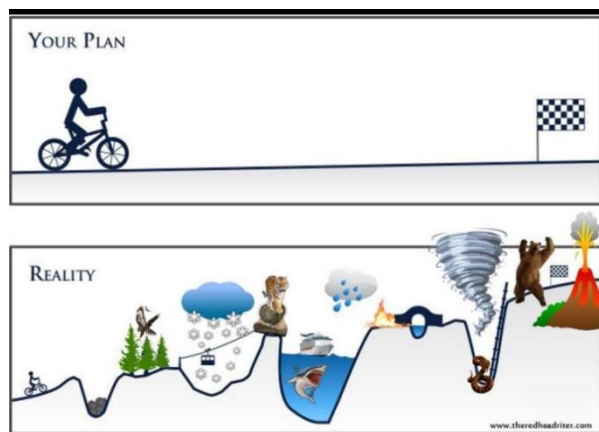
Preventing the spread of the infection is hampered by both private and public costs, or social cost, as noted above.^{vi} We know that the virus’s impact and our mitigation measures affect industries differently. We know that some industries, if they recover at all, will have to operate in very different ways. We know that dramatically reducing economic interactions shrinks the economy for all of us. Thus we know, if we are willing to accept this new reality, that some of our visions, dreams, objectives, and paradigms are now lost. But in that loss, new opportunities can emerge--the sooner we identify those and move towards the light they provide, the better off we will be as individuals and as society.^{vii}

Step Three is Adaptation: Revise One’s Strategy and Action Plans in Light of the New Reality

In his book on creating learning organizations, *THE FIFTH DISCIPLINE*, Peter Senge describes another tool to assist individuals and organizations to develop a road map to success based on a unified vision contrasted with a clear assessment of one’s current reality, and the identification of the obstacles and constraints that impede the fulfillment of those dreams.^{viii} Senge asks his readers to imagine a page of paper in landscape view where one’s vision or goal is described briefly in the top right corner of the page, and the current reality, or baseline is stated in the bottom left. He then invokes the image of a rubber band connecting the two, where the vision, or goal, is far enough from current reality to create tension in the rubber band that ‘pulls’ one toward goal achievement, driven by the passion created by the goal. He calls this gap creative tension. If the gap is too large, the band breaks. For instance, I will never be a pro basketball player no matter how much vision I bring to my game. If there is too little distance between the goal and the current reality, the rubber band lacks tension and fails to motivate one into action.

In formulating the vision, Senge suggests that mere numerical outcomes fail to provide the clarity needed to take subsequent actions, instead he suggests one articulate a vision and objectives that better describe the end state. For instance, increasing market share by x percent in a given market would be better than increasing sales by the dollar equivalent because the former allows one to compare current market share by segments and focus one's energy more directly. After explaining that the trick is to have a vision and goals that motivate and stimulate without being unrealistic, Senge asks simply what is preventing the goal from being achieved? His question is intended to help one develop an action plan to advance current reality towards goal achievement by removing constraints and obstacles, an actionable path to facilitate success. For instance, in the market share improvement example, a lack of brand recognition could quickly allow one to develop a program to improve brand awareness and preference.

M.H. Willeke portrayed this graphically like an obstacle course as shown here.^{ix} For current purposes, let's put these simple concepts into action in light of the shift in current reality imposed by COVID-19. Naturally, the specifics for any individual or organization are unique, but because COVID-19 has broad, systemic, and asymmetric impacts, it is useful for everyone to reconsider the vision, objectives, and obstacles in light of this new reality, and in the context of the three scenarios. The old saw that life is what happens while we are planning comes to mind. In his new book on mastering change during transitions, Bruce Feiler reminds us that although COVID-19 has affected everyone on the planet, each person or organization's transition is their unique journey.^x



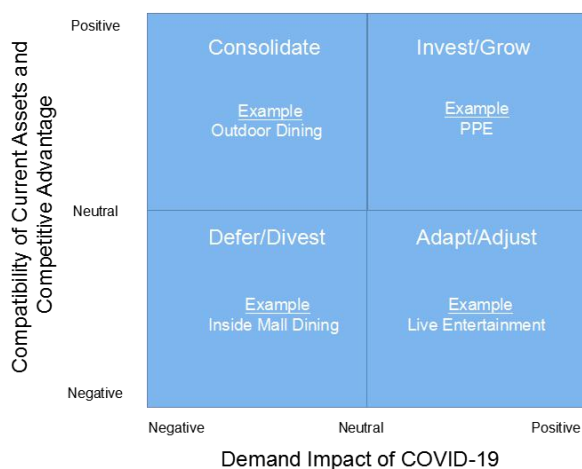
The new reality simultaneously changes prospects and imposes new constraints and obstacles. It also opens up new opportunities. Supply and demand curves across the spectrum are moving left or right; novel possibilities for competitive differentiation arise. Stranded assets and investments of time are superimposed on the appearance of new opportunities. If you don't see this, refer back to step one. Otherwise, we adapt by devising and executing new strategic plans.

Strategic and Tactical Implications

Under any of the three scenarios, several career paths and industries are facing demand destruction beyond their control. Performing artists, athletes, restaurant and bar owners, chefs, educators, those who practice elective medicine, and many others have to consider how long and to what extent they can or should continue to pursue their strategic goals if demand is lowered under good, bad, and ugly scenarios. Transportation fuels, refiners, gas station owners, even the associated convenience stations should all take a hard look at their strategic plans and capital spending; as should airplane and jet engine manufacturers.

Conversely, both those currently engaged in sectors where demand is increased, or those displaced by demand destruction need to adjust their strategies to emphasize growth opportunities. These may be constrained by the lack of talent, supply chain or scale presence to capture the wave of new demand, such as for on line solutions or for the tools to directly address the virus. Those engaged in valuing and investing need to look at the duration and likelihood of the three scenarios (or some equivalent they devise). Some industries will consolidate to retain scale efficiency and to internalize the exogenous shock to their markets; others will seek bankruptcy.

One high level generalization that might provide some insight would be a two dimensional matrix, a “four blocker” tool.^{xi} One dimension might be how the three scenarios affect demand along a spectrum: negatively, negligibly, or positively. The second axis or dimension might be the compatibility of one’s current assets, strengths, and competitive advantages, on the vertical axis but again negatively, negligibly, or positively.



This mapping creates four distinct “boxes.” In the top right, a case where positive demand impacts are accompanied by a high compatibility with current assets, one should invest to grow. Mask manufacturers, zoom like technology solutions, disinfectants, and many others come to mind. In the bottom right, where the demand impacts are positive but one’s current assets are less compatible, one should consider changes to the business model and accompanying assets. For instance, live entertainment sees an increase in demand for home viewing, but a decrease in venue attendance. For the top left box, where demand

is softening but one’s assets or competitive advantages are still high, a consolidation strategy might make sense. Here, outside dining comes to mind. Finally, in the bottom left quadrant, where demand will be soft and current assets are not compatible, divestiture or even bankruptcy may be the correct path, depending on the time frame for enduring negative cash flows. Indoor bars and dining, especially at malls, seem to fit this category.

Regardless of where you are on this spectrum, or which tactics you follow to address these new challenges, the important thing is to use facts, realistic projections under different scenarios, and remain analytically objective. At the same time, passion is a call to action--emotions and treasure are naturally attached to visions, plans, and historic investments.

All journeys begin with the first step: accept the new reality, distinguish what you can and cannot control, mitigate what you can, and adapt your strategic plans and actions to the new obstacles in your path. That is how we each discover a transition resilient under all likely scenarios. Whatever that path, our journey is mutually interdependent. Together we can build back a great future again.

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<https://www.frbsf.org/education/publications/doctor-econ/2002/november/private-social-costs-pollution-production/>

ii <https://www.merriam-webster.com/dictionary/Hobson%27s%20choice>

iii Scott Berinato, *That Discomfort You're Feeling is Grief*, Harvard Business Review, March 23, 2020. Available at <https://hbr.org/2020/03/that-discomfort-youre-feeling-is-grief> (last viewed on August 18, 2020).

iv See e.g. Angela Wilkinson and Roland Kupers, *Living in the Futures*, Harvard Business Review (May 2013). Available at <https://hbr.org/2013/05/living-in-the-futures> (last viewed on August 19, 2020).

v Responsible disease prevention authorities and medical institutions worldwide are publishing learnings on a routine basis. See, e.g., *EU Science Hub, Learning lessons from the pandemic: combining risk mitigation measures to tackle COVID-19* (May 8, 2020), available at:

<https://ec.europa.eu/jrc/en/news/learning-lessons-pandemic-combining-risk-mitigation-measures-tackle-covid-19>; Center for Disease Control and Prevention, *How to Protect Yourself and Others*, available at:

<https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html> (both last viewed on August 19, 2020).

vi R.H. Coase, *The Problem of Social Cost*, The Journal of Law and Economics, University of Chicago (1960). Available at <https://www.law.uchicago.edu/files/file/coase-problem.pdf> (last viewed on August 19, 2020).

vii Macro impacts and policy responses can be found at several web sites. See, e.g., Bridgewater Associates, *The Covid-19 Shock and new Investment Paradigm*, available at:

<https://www.bridgewater.com/research-and-insights/the-covid-19-shock-and-new-investment-paradigm> (last viewed on August 19, 2020); International Monetary Fund, *Policy Responses to COVID-19*

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19> (last viewed on August 19, 2020).

viii Peter Senge, *THE FIFTH DISCIPLINE* (1990).

ix M.H. Willeke, "Do You Have Agility in Your Plan?" Available at

<https://mhwilleke.com/do-you-have-agility-in-your-learning-plan> (last viewed on August 18, 2020).

x Bruce Feiler, *Life is in the Transitions: Mastering Change at Any Age*, (forthcoming 2020). See

<https://www.brucefeiler.com/books-articles/life-is-in-the-transitions/> (last viewed on August 19, 2019).

xi There are many ways to use a two dimensional, four quadrant matrix to gain insight into a strategic challenge.

See e.g., Patty Mulder, *Grand Strategy Matrix* (August 23, 2019). Available at:

<https://www.toolshero.com/strategy/grand-strategy-matrix/> (last viewed on August 19, 2020).