

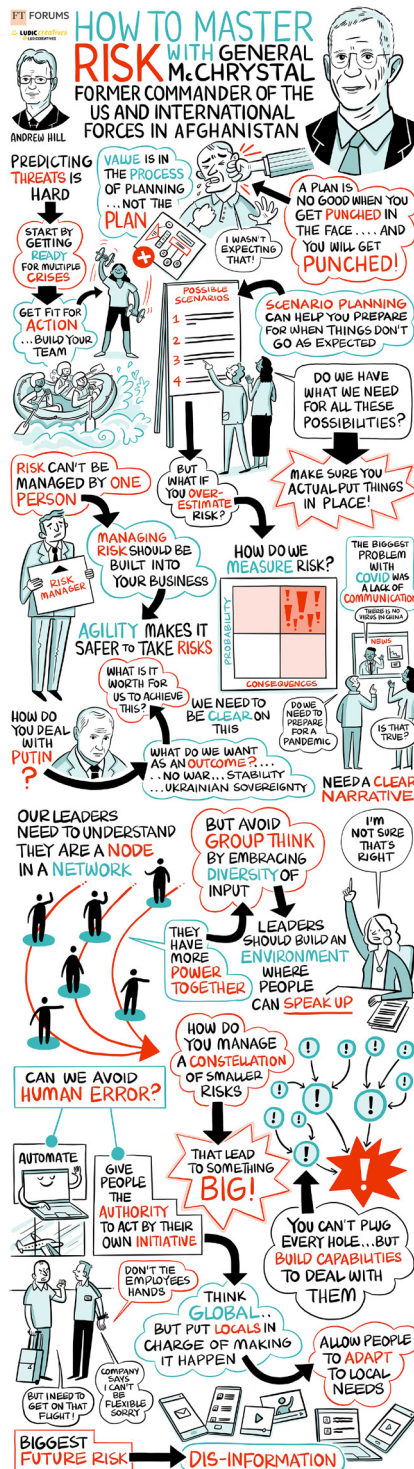
EVENT SUMMARY

HOW TO MASTER RISK WITH STANLEY MCCHRYSTAL

18 MAY

SPEAKERS

Andrew Hill, senior business writer, Financial Times in conversation with **Stanley McChrystal**, the former commander of US forces in Afghanistan



In the latest FT Board Director event, Andrew Hill spoke to Stanley McChrystal, the retired US general who now runs a leadership consultancy. The conversation followed the publication of *Risk: A User's Guide*, McChrystal's book, which looks at how business and political leaders can deal with risk.

Below are the highlights from the discussion.

PREPARE FOR TODAY'S RISKS: BUILD CONFIDENCE AND SHARE EXPERIENCE

People must realise that crises happen, said McChrystal. When a crisis is over, another will follow. "We know an economic crisis will come. We know there will be another war. We know there will be another pandemic," he said.

Given this, people have two options: "Either get into the foetal position, get in the corner and sob quietly, or get yourself ready for what's coming."

To take the second course, McChrystal said leaders should build a team that they know will perform. Before the US left Afghanistan in August he was occasionally asked what he would do differently if put in charge of American forces again.

His response – and he said he was only half joking – was: "I would take the president, the vice-president, the director of the CIA and the secretary of defence, and we'd go whitewater rafting. I would take several cases of beer, I would take them out for five or six days and I wouldn't talk about war or politics. I would just take that team, try to get them to bond, try to build some trust, some empathy, and develop some shared jokes; things they could fall back on. When it gets tough, those are the things that often turn out to be the sinew that holds you together."

McChrystal said the US special forces had a similar approach: "The best units put people through something that's physically and mentally exhausting," he said. "They do this to build the confidence of individuals so they think: 'I can do much more than I thought I could' and to build shared experience and 'create the memories that connect you.'"

A PLAN VERSUS PLANNING: WHAT THE LATE PRESIDENT EISENHOWER CAN STILL TEACH

LEADERS

"Plans are worthless but planning is everything," Dwight Eisenhower, the Second World War general and later US president, said. McChrystal said: "In my experience when you put together a plan, it seems like a great one – but it never executes as you expect it to." That does not mean it is a waste of time. He said the value was in "the planning process". By going through the process "you learn about the situation, you learn about your capabilities, you essentially develop a range of things you can do".

He said that during the pandemic many big companies engaged in scenario planning (what the military call wargaming). This process proved to be valuable as leaders tried to respond to the crisis as it evolved, even if some scenarios did not become reality. "It opens your mind to the range of things that could happen," said McChrystal. "Most of us are programmed to think in a linear way; we think tomorrow will be like today. But history shows that things change pretty significantly and we need to be sensitised to that.

"If you get those scenarios right [you] teach the organisation that things that you assumed would be a certain way are not. What can I do about that? What are my options? What are my capabilities? And if I lack capabilities, what do I need to develop to make myself more prepared to do that?"

DON'T JUST DO A SCENARIO PLAN: LEARN LESSONS AND TAKE ACTION

It is sometimes said that the pandemic was a "black swan", a random, improbable event. But McChrystal said the US had prepared for such a disaster but failed to act on the findings.

Over eight months in 2019 the US staged Crimson Contagion, a test of the country's readiness to respond to a pandemic. The strikingly familiar scenario had an American traveller fall ill on a flight from China to Chicago. His son collected him from the airport and went on to a rock concert. Ultimately 500,000 Americans died. Could key institutions cope?

A 76-page report set out the actions needed to prepare for a real pandemic. “Almost none of those actions had been taken” when news of the coronavirus emerged, McChrystal said. In the end, the US “stumbled into a series of mistakes and missteps that ultimately cost more than a million American lives”.

McChrystal's conclusion is that when you do scenario planning, “you have to learn from it” – and you must act.

He said people sometimes asked him: “How do you stay in good shape? What's the secret?” He answers: “Here's the secret. Eat right. Don't drink too much. Don't smoke. Get enough sleep. Work out.” Invariably they say: “That's not a secret.” And McChrystal replies: “That's the point. The secret is doing it.”

RISK IS THE RESPONSIBILITY OF EVERY EMPLOYEE, NOT JUST THE CHIEF RISK OFFICER

McChrystal said it was a mistake to make risk management the responsibility of one person, such as a chief risk officer. He used Lehman Brothers as an example. The investment bank, which went bankrupt in 2008, had appointed a CRO but “for all her expertise and responsibilities, she was not brought into the investment committee”; she had no way to influence “the one place where you make the most risk-associated decisions”.

It is important to strike a balance between too much risk and too little risk, McChrystal said. The first may bring greater returns while the second can lead to a lack of competitiveness. He said a share of risk had to be borne by everyone in an organisation. Elaborating on this point, he said: “If you have a [company] lawyer [you might] say, ‘OK, you're going to keep us legal’. But if other people then say that ‘As long as the lawyer doesn't stop me, I can do what I want’, that is an issue.”

FIND THE BIGGEST RISK YOU FACE – LOOK IN THE MIRROR

McChrystal said: “The greatest risk to us is, ultimately, us”. He said: “I am not arguing that you shouldn't pay attention to indicators of risk, that you shouldn't try to understand what threats are out there. I think it's important to do that. But I think it's more important to look inward.”

He said Covid-19 was “not unbeatable”. Indeed, it was “eminently manageable and would have been from the start had we done it better”.

Why didn't we do it better? He pointed to a failure of communication: “We didn't communicate what the situation was and what we needed to do about it.” As a result there was no single “narrative around which leaders could mobilise the population”.

A second factor was organisational inertia. In a crisis “important decisions have to be made before it is evident that they are required”. He acknowledged that this was hard to do: “It's like cancelling airline flights when the sun is out: the weather looks great, and passengers can't understand why you're cancelling their flight. Yet you may see the weather 12 or more hours ahead.”

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HOW TO DEAL WITH LEADERS SUCH AS VLADIMIR PUTIN

McChrystal said the world should take “a step back and ask, ‘OK, what do we want out of this?’” He said his personal answer to the question was twofold and involved “a stable world with a lower chance of direct conflict, particularly nuclear conflict” and safeguarding “Ukraine’s sovereignty and alignment to the west”.

There is also a follow-up question: which of these objectives matter a lot, or most, to us? He said that in Russia “the loss of Ukraine as part of the larger Russia empire” was viewed as “unacceptable”, as an “existential threat to who Russia is, and to their security in the world. They care a lot about that” – enough to invade Ukraine. The rest of the world, by contrast, says that Ukraine should be able to decide its own future. “The question is: Who cares more? Do we care enough as the stakes get raised?”

He said that the world needed to decide “what it’s worth to us”.

HOW LEADERS SHOULD VIEW THEMSELVES FOR BEST EFFECT

In his book McChrystal writes: “Leaders should shift their mindset to think of themselves as a node in a network rather than the apex of a triangle.”

Asked to explain, he said: “There’s no single world leader who is going to determine what happens in Ukraine”. He said that right now Putin was “the single most powerful leader because he is disproportionately powerful inside Russia and therefore, at least in the near term, he can deliver what Russia is going to do”.

By contrast, President Biden, President Macron and Boris Johnson do not have the same kind of “ability to deliver their nation’s foreign policy without doing a lot of coordination and deals: they are constrained because they operate in pluralistic societies”.

If McChrystal thinks the role of the individual in history can be overstated – “the great man theory” – he believes that individuals do matter. He pointed to “the impact [of] Donald Trump,” adding that “his personality is still a big factor there”.

DISINFORMATION, THE BIGGEST RISK FACING COUNTRIES AND COMPANIES TODAY

Asked to identify the biggest risk facing countries and companies, McChrystal did not hesitate when he said: “Intentional disinformation.”

He said that “people do extraordinary things based upon what they believe”, such as going to war or being suicide bombers. Now, with social media, disinformation can “take world events in extraordinary directions and it can also take businesses to their knees in a pretty short amount of time”.

QUESTIONS FROM THE AUDIENCE

Do you think business leaders overestimate risks in a way that makes us weaker?

“I think that’s often the case,” McChrystal said. “It’s particularly true in the military because the military are inherently conservative people, because they’re dealing with the lives of soldiers. But I find it in business as well. People misread what the real risk is.”

He said: “People rarely measure the risk of not doing something. If we stay where we are it feels like we haven’t undertaken any risk but remaining at the status quo can be the riskiest thing of all, particularly if competitors or the market are moving on us”.

He concluded: “The best leaders understand there is a risk in everything you do, moving or not.”

Do you have any practical advice on how best to avoid groupthink?

McChrystal said the phrase “groupthink”, which describes the errors made when people reach a collective decision, was coined by Irving Janis, a psychologist at the University of California after the failed US-backed Bay of Pigs invasion of Cuba in 1961.

People could be easily persuaded not to speak up, McChrystal said. As an example, he told of the intimidation people can feel in the Oval Office in the White House – even a four-star general. It is, he said, “arguably the most powerful room in the world” and when you step inside, the president has “home field advantage”. It takes courage to say Y when everyone else is saying X.

To address this problem, leaders have to “create an environment where they have people who not only feel that they can speak up but also feel an absolute responsibility to point out the things that haven’t been raised, to point out the things that are maybe counter arguments or dangers in a situation”.

Are there any ways to avoid risks caused by human error?

Initially McChrystal said “yes”, pointing to automation and self-driving cars. In the end, though, he said the answer was “no”.

He warned against trying to legislate for human error and pointed to the passenger dragged off a United Airlines flight because the plane was overbooked. A video was posted on social media. Later the airline’s CEO said everyone had followed procedure. McChrystal said: “They basically tied the hands of their employees from doing what made sense.”

He concluded: “My long answer is [that] you don’t want to take out ‘human’ in error. Instead you want to give people the authority, the initiative and the responsibility to act with their best judgment. There will be errors but what will happen is [that] cumulatively you will get a far better outcome.”

Is there a best-case example of a company or individual that changed their approach in the light of particular risks?

McChrystal pointed to Ulysses Grant, who led the Union army to victory in the American civil war and later became president of the US. During the Vicksburg campaign in Mississippi he “tried a number of things, all of which didn’t work”. Nevertheless, he kept his focus. Everything was a learning process and his army became “more seasoned”. McChrystal said: “Everything that didn’t work informed him what would work.” Grant laid siege to the Confederates in the fortress city of Vicksburg and after 40 days they surrendered. It was a turning point in the war.

How do you manage small but related risks that might cause leaders to overlook collective risk?

“I think these are often the most difficult,” McChrystal said. He pointed to his experience on the safety committee of JetBlue, a low-cost US airline. Whenever investigators look for why a crash happened, they find “a proximate cause, but they also find this constellation of other things, whether it’s processes not being followed, or training not being completed or other contributory things”. At this point, it is realised “that the risk on all of your daily operations is much higher than you want it to be”.

To manage this, companies need to strike a balance. “You don’t want everybody scared of every risk. If people think that everything is going to cause business to collapse or go down, then they will be cowed into inaction.” So, leaders should identify the “constellation of key risks” and then answer this question: how are we prepared to act and what are our capabilities? McChrystal added: “As long as you’ve got the capabilities to deal with the key risks, you are better off focusing there than on trying to plug every little hole.”