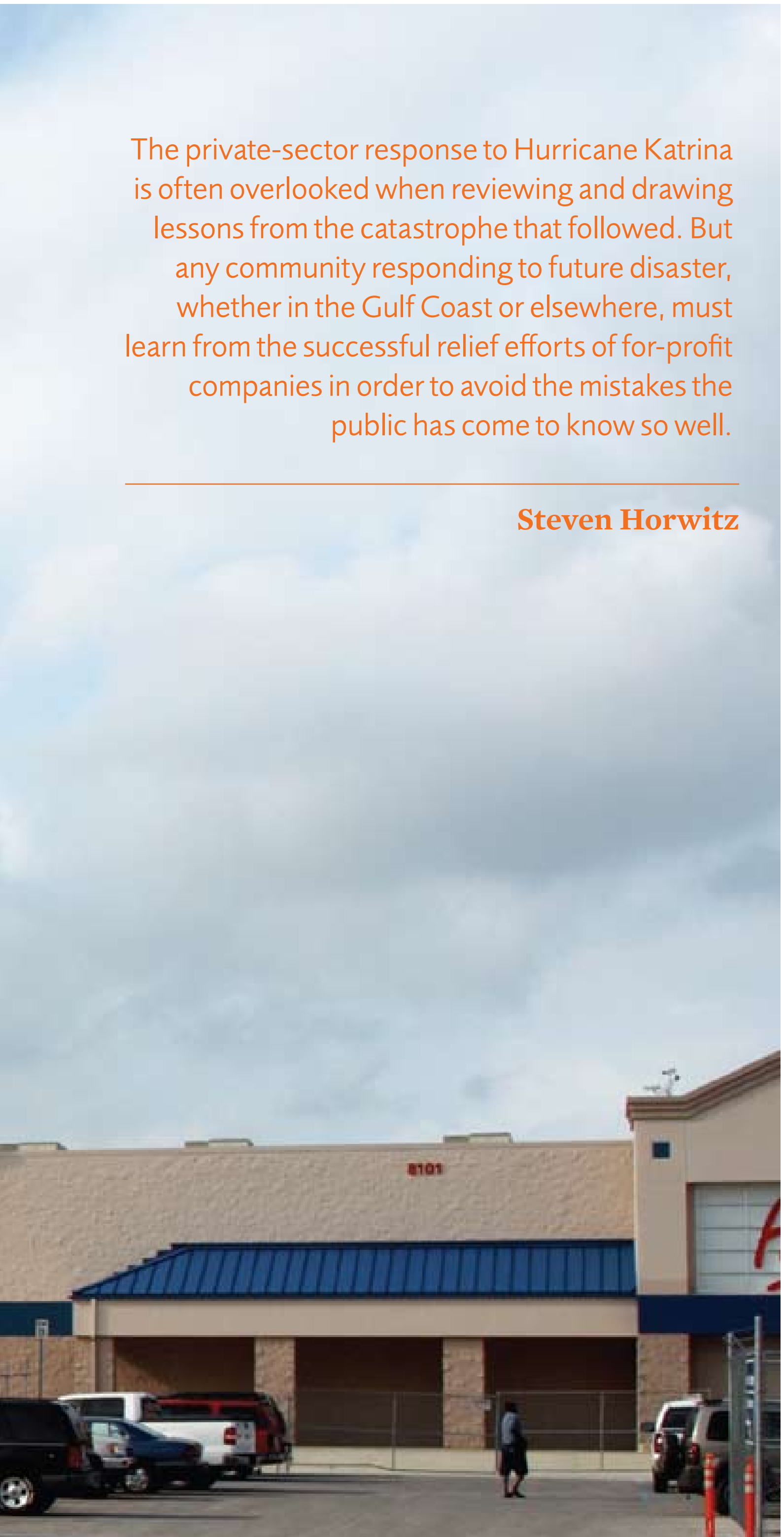
Hurricane Recovery Comes Out of a Box

Photo: Joanna Andreasson



The private-sector response to Hurricane Katrina is often overlooked when reviewing and drawing lessons from the catastrophe that followed. But any community responding to future disaster, whether in the Gulf Coast or elsewhere, must learn from the successful relief efforts of for-profit companies in order to avoid the mistakes the public has come to know so well.

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On August 26, 2005, three days before Hurricane Katrina made landfall, a team of people nearly 500 miles away in Atlanta was hard at work getting needed supplies staged into the hurricane zone. Two days before that on August 24, in the northwest corner of Arkansas, a different center usually staffed by six to ten people was augmented to over fifty people tracking the storm and making plans to dispatch necessary items to the area once the storm had passed. They coordinated the delivery of what would amount to 2,500 truckloads over the next two-and-a-half weeks,[1] none of which was handled by FEMA.

The story of Katrina, as commonly understood, is one of dramatic failure: an unprepared emergency response, uncoordinated recovery efforts, a clumsy federal bureaucracy, and, ultimately, more than 1,400 dead. But a complete telling of the Katrina story does include some significant successes—lesser-known actions that saved hundreds and improved quality of life for thousands in the aftermath of disaster.

The private-sector response to Hurricane Katrina—particularly the response of Wal-Mart, which will be the focus here—is often overlooked when reviewing and drawing lessons from the catastrophe that followed. But any community responding to future disaster, whether in the Gulf Coast or elsewhere, must learn from the successful relief efforts of for-profit companies like Wal-Mart in order to avoid the mistakes the public has come to know so well.

Wal-Mart's Response

Those familiar with the situation on the ground in New Orleans and the surrounding area generally agree that Wal-Mart's response was admirable and, perhaps more importantly, effective. Jefferson Parish sheriff Harry Lee said on *Meet the Press* that, "if [the] American government would have responded like Wal-Mart has responded, we wouldn't be in this crisis." On the same show, Jefferson Parish president Aaron Broussard pointed out that, in perhaps one of the starkest contrasts between private- and public-sector

1. Ann Zimmerman and Valerie Bauerlein, "At Wal-Mart, Emergency Plan Has Big Payoff," *Wall Street Journal*, September 15, 2005, B1; Andrew Ward, "Home Depot Prepares for Katrina," *Financial Times*, August 29, 2005, 18.

responses, Wal-Mart attempted to provide three trailers of water to people in New Orleans, only to be turned away by FEMA. Joseph Capitano, mayor of Kenner, explained that, "the only lifeline in Kenner was the Wal-Mart stores. We didn't have looting on a mass scale because Wal-Mart showed up with food and water so our people could survive."[2]

Perhaps most striking about the private, for-profit sector response to Katrina is not only how well-received were its efforts, but just how much better it was than a publicly funded government agency explicitly tasked "to reduce the loss of life and property and protect the Nation from all hazards, including natural disasters."[3] The difference between the two responses can broadly be separated into "how" and "why." That is, how did Wal-Mart manage to respond effectively where the government couldn't, and why did it choose to do so?

> "The only lifeline in Kenner was the Wal-Mart stores."
>
> –Philip Capitano, Mayor of Kenner, a suburb of New Orleans

Business Continuity

The answer to the first question begins with Wal-Mart's fidelity to a little-known piece of business school jargon: business continuity—the practice of preparing for and responding to unforeseen (or at least unavoidable) disruptions in operations.

For Wal-Mart, business continuity begins with its team of six to ten full-time staff at its emergency command center, a team that can be quickly complemented by individuals from other divisions as needed. With respect to natural disasters, Hurricane Katrina in particular, this team does its own weather monitoring and contracts with private forecasters to augment its own in-house capabilities. Run by Jason Jackson, Wal-Mart's director of business continuity, the office may grow to include as many as sixty employees, a structure which "drives the ability to be agile and flexible."[4] As John Harrald, director of the Institute for Crisis, Disaster and Risk Management at George Washington University, noted in a 2006 study, agility is one of the two crucial aspects of a successful disaster response (the other being discipline).[5] Wal-Mart's level of preparation was further enhanced by the fact that it had already dealt with hurricanes, albeit smaller-scale ones than Katrina. Because the company operates a number of stores along the Gulf Coast and in Florida, it had already developed a protocol to deal with such emergencies.

An early part of the disaster protocol is opening a two-way channel of communication from senior management to regional, district, and store management. While company-wide objectives are communicated down the ladder, on-the-ground management can relay information on changing conditions at stores back up the chain of command to the emergency command center.[6]

As another step in the protocol, in the days immediately preceding landfall, essential supplies such as generators, dry ice, and bottled water are moved "to designated staging areas so that company stores would be able to open up quickly," according to the *Wall Street Journal*. Located just outside the areas that are likely to be worst hit, the staging areas are strategically placed and aggressively supplied to facilitate a quick response with minimal danger of damage. In fact, one distribution center in Mississippi had as many as forty-five trucks in place before landfall.[7]

With Wal-Mart's "senior representatives from each of the company's functional areas"[8] in the emergency command

2. Devin Leonard, "The Only Lifeline was the Wal-Mart," *Fortune*, October 3, 2005, 7; Susan Rosegrant, *Wal-Mart's Response to Hurricane Katrina: Striving for a Public-Private Partnership*, The Kennedy School of Government Case Program C16-07-1876.0 (Cambridge, MA: Kennedy School of Government Case Studies in Public Policy & Management, 2007).
3. Federal Emergency Management Agency, "About FEMA: FEMA Mission," FEMA, http://www.fema.gov/about/index.shtm.
4. Ben Worthen, "How Wal-Mart Beat the Feds to New Orleans," *CIO Magazine*, November 1, 2005, http://www.cio.com/article/How_Wal_Mart_Beat_Feds_to_New_Orleans; Rosegrant, *Wal-Mart's Response*.
5. John Harrald, "Agility and Discipline: Critical Success Factors for Disaster Response," *Annals of the American Academy of Political and Social Sciences* 604 (2006): 256-72.
6. Rosegrant, *Wal-Mart's Response*.
7. Leonard, "Only Lifeline; "Rosegrant, *Wal-Mart's Response*.
8. Worthen, "How Wal-Mart Beat the Feds;" Rosegrant, *Wal-Mart's Response*.

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center and its team in New Orleans supplemented by senior management (including a regional vice president), information sharing was coupled with quick decision-making.[9] Once Jackson, at the emergency command center, became aware of the damage and the extensive flooding at some stores, he was able to facilitate the replenishment of mops, bleach, and similar products into affected areas.

Local Knowledge

Another aspect of Wal-Mart's response is flexibility. Because local conditions required different decisions at different times, the company gave district and store managers a great degree of discretion. This discretion, manifest in a directive handed down by company CEO Lee Scott, communicated through the chain of command down to store managers: "A lot of you are going to have to make decisions above your level. Make the best decision that you can with the information that's available to you at the time, and, above all, do the right thing."[10]

Examples abound of local store managers doing just that. In Kenner, Louisiana, an employee knocked open a warehouse door with a forklift in order to get water for a nearby retirement home; in Marrero, Louisiana, a store was used as a makeshift headquarters and residence for displaced local police officers; in Waveland, Mississippi, an assistant manager, using a bulldozer in her store, collected whatever basic items that were not damaged and put them in the parking lot to give away to residents. This same Waveland employee, Jessica Lewis, also broke into her store's pharmacy to supply critical drugs to a local hospital. Lewis' actions met with upper management's approval, with Wal-Mart's Jason Jackson commenting that, "what [she] did is a good example of autonomy."[11]

Wal-Mart's approach of emphasizing decision making at the ground level takes advantage of what economists refer to as "local knowledge." For several decades, economists have emphasized the use of knowledge of specific time and place as a necessary condition for firms to respond efficiently to dynamic environments. That is, no centralized authority or bureaucracy can possibly possess all the pieces of infor-

9. Rosegrant, *Wal-Mart's Response*.
10. Ibid.
11. Ibid.

mation necessary to make effective decisions. Often, such knowledge is separated among too many people to be easily aggregated through an autocratic management structure. Sometimes the knowledge is tacit, embodied by individuals without them actually knowing they possess it. Much of what one might refer to as culture or customs qualifies as tacit knowledge—rules, heuristics, and experience that are implicit. In traditional market systems, prices are often the most effective mechanism to capture as much information as possible and to communicate changing preferences and conditions throughout the system. Wal-Mart is able to use another method of exploiting local knowledge that is even more crucial in a crisis situation by shifting authority to as local a level as possible.[12]

It's the Incentives

Wal-Mart's effective response to disaster might lead to the questions of why the company was so well suited to the task and, further, why it so resolutely involved itself in the recovery to begin with. The answer to both questions has to do with incentives.

Whereas government agencies are most often motivated by political constraints—aiming to expand their own budgets and respond to the electoral concerns of their appropriators—private-sector companies wishing to turn a profit have an incentive to serve their customers by creating real value. Additionally, these companies must successfully meet customers' needs if they hope to succeed in a competitive environment. Because Wal-Mart knew that customers would likely resent a company that chose not to assist customers in dire need, company managers elected to help whenever possible, often giving away items at a loss. In the final calculation, Wal-Mart's effort to maximize profits through customer retention and satisfaction actually met critical needs in the post-Katrina environment, though taken alone it was a profit-losing endeavor. The same long-term interests motivated the company's policy of region-wide price freezes during the hurricane.[13] Both demonstrated that socially beneficial results often originate from self-interested actions.[14]

Private firms like Wal-Mart also have an incentive to reopen as quickly as possible after a natural disaster because every day their stores are closed they forgo revenue. This provides the motivation for business continuity protocols. Wal-Mart provided aid and necessary items while stores were damaged and the region in crisis, but it also did what it could to restore normalcy and regular operation to its stores. At the peak of the storm, 126 stores were closed, with "more than half . . . losing power . . . and 89 . . . report[ing] damage." Within ten days, only the 15 stores having sustained the most flooding and structural damage remain closed.[15]

12. For an expanded discussion of the concepts outlined here, see F. A. Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

13. Ibid; Terri Langford, "Disaster Plan Teams State and Retailers," *Houston Chronicle*, July 15, 2007, http://www/chron.com/disp/story.mpl/hurricane/4967735.html.

14. James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

15. Zimmerman and Bauerlein, "Wal-Mart Emergency Plan."

Photo: Joanna Andreasson

Incentives also play a role in the type of risks organizations are likely to take. As Hurricane Katrina approached the coast, Wal-Mart and other retailers staged supplies outside dangerous areas to minimize the transport time required once the storm subsided. This was an inherently risky proposition because, had the course of the storm progressed differently, the companies would have wasted valuable manpower and inventory. But given what they knew, the frequent updates they were receiving, and what was at stake, they decided it was a necessary risk. Their institutional environments, which determine the incentives they face, do not bias them towards taking or not taking a particular action. Rather, incentives to act or not act are shaped by expected costs and benefits.[16]

FEMA, on the other hand, has less incentive to make a similar gamble. Had it done so and the storm changed course, officials could easily have been blamed for wasting resources. FEMA incentives push officials to make *errors of omission*. That is, its incentives are biased towards inaction—even if an action could be the right one. The counterpart to error of omission is an *error of commission*, which is a mistake once action has been taken. The latter errors can be easily spotted and identified as such, and they pose a greater fear for public agencies. Why? Errors stemming from failure to take a particular action are often hidden and less likely to be criticized by the public or oversight entities.

Private firms, all else being equal, are less likely to wait when they should act or to preemptively act when they should wait. As mentioned above, their actions are determined by calculating the costs and benefits associated with each course and judging, based on available information, which is preferable. Company management and

16. Russell Sobel and Peter Leeson, *Flirting with Disaster: The Inherent Problems with FEMA*, Cato Policy Analysis no. 573 (Washington, DC: Cato Institute, 2006).

shareholders will ultimately see both types of errors as being costly. Wal-Mart in particular, because of innovations in just-in-time inventory management, is especially suited to making determinations about when, where, and how many supplies should be deployed to satisfy needs while avoiding a surplus of goods.[17]

The Culture of Everyday Low Prices

The lack of a competitive environment within government agencies also means that they are less likely to develop organizational structures, such as decentralized models, that respond efficiently to information. Wal-Mart, a leader in the highly competitive retail sector, has all but perfected logistical operations by adopting an information-maximizing decentralized operation structure. Private firms' decentralized structures, and the profit-maximizing competitive market environment in which they function, ensure that private-sector actors are much more likely than their uncompetitive, centralized government agency counterparts to make efficient and timely decisions.

In the case of Wal-Mart, the organizational structure's effectiveness is deeper than just decentralization. Wal-Mart has undertaken great efforts to instill and support a powerful culture, which runs from top to bottom of the corporate chain.[18] In addition to encouraging and celebrating employee successes, this shared value system among employees allows senior management to give on-scene associates discretion to deal with situations as they see fit. When CEO Lee Scott directed employees to "do the right thing" in his pre-Katrina memo, he was using that four word phrase to invoke this corporate culture. As much of this knowledge is tacit, employees knew instinctively what they needed to do, and used both local knowledge of and intuitions about on-scene conditions to make the best decisions available to them.[19]

Implications for Policy

In the wake of Hurricane Katrina's destruction, private firms like Wal-Mart were busily aiding those in need and those needing to rebuild. Most observers in both the private and public sectors agree that the former performed very successfully while the latter failed miserably. Without having been told to do so and without official direction from a central agency, companies such as Wal-Mart assessed the situation and acted as best they could, taking advantage of the same tools, structure, and resources that have made them a retail success.

Americans will continue to confront the risk of natural disaster, and hurricanes will be part of that ongoing threat—especially along the Gulf Coast. Thus, it behooves policy makers to take note of the successes and failures of this highly publicized disaster response to ensure future disasters are met with a more effective response.

The Hippocratic Oath of Disaster Policy

Public agencies at the federal, state, and local levels should ensure that the private sector is a recognized actor in disaster protocols. As Hurricane Katrina highlighted, the private sector is a necessary part of providing relief and coordinating resources during a time of crisis. Government agencies should recognize and incorporate private-sector strengths when preparing and executing response efforts.

One of the most effective ways to do so is by reducing barriers to private-sector efforts. Though public entities tend to be slow in making decisions and unlikely to take calculated risks, they should avoid requiring private-sector firms involved in response to be mired in bureaucratic approvals and regulation. Just as the Hippocratic Oath compels doctors to "first, do no harm," public agencies should endeavor to do so when executing disaster-response plans. The best way to encourage this among private-sector responders is to remain hands off.

Regarding specific actions that support efficient private-sector involvement, governments should explicitly include local firms when designing communication protocols. Who should be notified about disaster declarations? Who has particular authorities? Who will liaise between particular public agencies and private firms? Additionally, a list of private firms included in the protocols should be shared across

17. Ibid.

18. An entire section of the Wal-Mart web site is devoted to issues of corporate culture, such as its "Three Basic Beliefs," founder Sam Walton's "Ten Rules for Building Business," and the "Wal-Mart Cheer," which every employee is familiar with. For more examples see, Wal-Mart Stores, Inc., "Wal-Mart Culture," http://www.walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=251.

19. Frederic Sautet, *An Entrepreneurial Theory of the Firm* (New York: Routledge, 2000); Wal-Mart Stores, Inc., "Wal-Mart Culture."

all levels of government and relevant agencies. During Katrina, supplies were stranded, resources turned away, and workers diverted because public agencies were not aware of who these private entities were and how they were trying to help. Even relevant private-sector calls to local agency offices (among them the New Orleans mayor's office and the Homeland Security outpost) were largely ignored during Katrina.[20] To avoid such confusion and "do no harm" to private-sector relief efforts, protocol designers should harmonize public relief efforts with private assistance—authorizing private firms to act and taking the time to become familiar with local resources.

Decentralize Government Relief

During its response to Hurricane Katrina, Wal-Mart's non-hierarchical structure demonstrated the power of decentralized effort in response to a crisis. Conditions change on a very local level, often in ways that cannot be anticipated. Government relief agencies (especially FEMA) should engage a decentralized structure. FEMA could route money and resources to local government and non-governmental organizations for use and distribution that align with perceived on-the-ground needs and on-the-spot knowledge. Local employees of federal agencies like FEMA could themselves also be empowered to take on more responsibility and authority.

In the years following Katrina, however, disaster relief authorities within the federal government have actually moved towards further centralization (i.e., moving FEMA into the Department of Homeland Security) and more inflexible missions and bureaucracy.

Revise Good Samaritan Laws

Good Samaritan laws are generally designed to provide those offering help in an emergency situation a "safe harbor" from civil liability. The effect is to encourage good faith attempts to help, thereby promoting a culture of civic responsibility and increasing the likelihood of people receiving the help they need at a time of peril.

However, these laws are generally intended to apply in individual situations, not widespread disasters like a hurricane. They often exempt individuals who are in a compensated capacity for their actions from protection. As they stand, poorly worded Good Samaritan laws can severely discourage private-sector assistance in a time of crisis. Moreover, these laws vary in often subtle and ambiguous ways from state to state, creating a different liability environment for every natural disaster. Local, state, and federal governments should reform Good Samaritan laws so that they explicitly cover those who provide assistance while being paid as employees of a firm. The American Public Health Association has even developed model legislation that incorporates such lessons learned from the Katrina experience.[21]

Conclusion

In any disaster situation, the goal is to save lives and .relieve suffering as quickly and effectively as possible. With that in mind, policy makers should be indifferent to who provides assistance or what organization supplies it, as long as it meets the above criteria. In the case of Hurricane Katrina and the devastation it wreaked in the Gulf Coast region, the private sector, though not part of any official disaster response plan, offered a timely and efficient response. Lessons learned from the Wal-Mart response in particular can help policy makers understand why the private-sector effort was so much more effective than the lethargic and delayed public-sector response.

In addition to recognizing the crucial role private firms can and should play in disaster relief, government agencies—insofar as they must be involved—should mirror those aspects of the successful disaster response exhibited during Katrina. The bungled government reaction to disaster is well known, amounting to something of a disaster itself. But the less well-known narrative—private companies exploiting their own resources and advantages to help an untold number of people survive and rebuild—could very well save an untold number of lives in future disasters, if its lessons are learned.

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20. FEMA's blocking of relief efforts has been well documented; see, for instance, Scott Shane, "After Failures, Government Officials Play Blame Game," *New York Times*, September 5, 2005, A1.

21. See North Carolina Institute for Public Health, "Leadership Discussion of Good Samaritan Legislative Initiative," *Public/Private Legal Preparedness Initiative*," http://nciph.sph.unc.edu/law/apha.pdf.