

NAVIGATING THE PANDEMIC IN THE BOARDROOM



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SUMMARY

- Unprecedented scope, speed, and depth of crisis coupled with indeterminate duration — probe to understand current status and company's ability to survive
- Don't wait for statistics — decisions need to be made real time
- Don't waste time drafting detailed plans — leaders must be out in front with customers, partners, suppliers, employees, and other stakeholders
- Decisions about survival in the short-term sow the seeds of strategy for the longer-term; Board should be hypervigilant of what is being signaled and how it affects the company's strategic position (find ways to raise the stakes for the competition, and gain ground with customers and investors)
- Crisis will disrupt previously established barriers to entry, as well as upend companies and entire industries — new threats will emerge, just as new opportunities will
- In times of great uncertainty, act incrementally but think big and revolutionary — the Board can help management think holistically, and with a broader perspective

The scope, speed, depth, and indeterminate timing of the current economic free-fall, combined with the daunting personal and societal implications of the COVID pandemic, will be a defining crucible moment for most companies: many will not survive the crisis, some will emerge severely weakened, and those that weather the storm will stand as beacons on the battered landscape of the economy (a few may even thrive). The crisis will test balance sheets and companies' financial strength, push leadership into the spotlight, transform operations, and even reveal companies' true values and moral compass. For companies that do survive, the crisis is likely to create unprecedented opportunities to challenge old paradigms, accelerate new ways of working, and outmaneuver competitors as whole industries are reshaped. So Boards of Directors must help their company weather the immediate crisis and inspire management to think broadly about strategy.

NAVIGATING THE IMMEDIATE CRISIS

Boards play a critical role in helping navigate the raging storm, most immediately prodding management to assess the situation and formulate a responsive set of actions. Start by reviewing what management and the Board know is in extreme flux, across every foundational element of the organization. A simple stakeholder framework allows directors to quickly and systematically review the impact of the Pandemic across multiple variables

1. **Customer:** What is happening to demand? How are volumes affected? How have customers' ability to pay in this environment changed?
2. **Employees:** How are employees doing? Are they working at home or elsewhere? How are we helping ensure they are productive?
3. **Suppliers:** What is the state of the supply chain? Where are the critical choke-points?
4. **Government:** What are the implications of government assistance packages?
5. **Other:** What other risks might increase while focus is on the Pandemic (such as, cyber and technology risks)?

Beyond assessing the state of stakeholders, directors must promptly obtain an understanding of the financial position of the company, in particular the organization's cash flows and liquidity. More specifically, the Board will need insight into financials relative to debt covenants and thresholds, verified access to credit lines, changes to capital expenditures, share buy-back plans, and distributions to shareholders. This horizon snaps into focus the organization's ability to survive the next few days, weeks, and months, and what needs to be communicated to investors, creditors, regulators and the like.

Exhibit 1. Cash flow and liquidity assessment

A. Assess impact on company's liquidity

1. Projected cash flows
2. Debt covenants
3. Credit lines
4. Transactions in the work
5. Capital expenditures
6. Distributions to shareholders



B. Approve revised approach to cash flows

1. Stop or reduce repurchases and dividends
2. Refinance debt and ask for covenant relief
3. Draw down on credit lines
4. Continue with planned transactions
5. Cut or reduce planned internal projects
6. Consider government programs providing near-term relief

From an operational perspective, management must update the Board on key changes to the operating plan. A leading transportation and logistics company restructured how teams operate transportation routes, favoring a less efficient but safer model that also increased resiliency of operations. Some companies are taking advantage of historically low prices of key inputs (such as, stockpiling fuel, commodity chemicals) to build reserves and resiliency. Company-specific versions of questions like the following need to be asked: how have day-to-day operations changed, and what is impact on key operating expenses? How have revenue goals and targets been adjusted? What previously approved commitments will fall off the table? What do the contingency plans look like if the societal and economic shut down is longer than the next several months?

These are fundamental questions about the health of the business. There is limited strategy here — this is survival, plain and simple. And while an updated operating plan is needed, management should avoid the temptation of drafting an extensive, detailed new operating plan — there is no time or room for false precision in a crisis of this magnitude, these are decisions to tack and go with or against the wind.

RETHINKING STRATEGY IN LIGHT OF THE PANDEMIC

A fundamental difference between this economic crisis and previous ones is its lightning-fast impact, together with huge scientific uncertainty about its potential length. The US economy went from a booming economy and full employment to an economic coma with skyrocketing unemployment in a matter of weeks. Airline company scenario plans anticipating a sequenced, rolling closure of flight routes were made irrelevant almost overnight as global simultaneous travel bans took effect and the majority of fleets were grounded indefinitely. Yet no one knows when the world will return to normal, or what the new normal will look like.

The forces at play are unforgiving and Boards have a careful balancing act ahead: companies cannot afford to underreact to the crisis (thereby risking financial ruin), nor overreact and diminish relative competitive positioning or lose investor confidence. And while survival is a first order existential priority, to thrive is the aspirational opportunity and thus this is also a time for strategy.

For example, a leading auto insurance company in the US recently announced that it would refund premiums as part of a “shelter-in-place payback” to customers to offset a massive decline in driving. While this is partly motivated to preempt regulatory intervention, competitors now must decide if they follow suit — and take a financial hit themselves — or risk customers switching to a seemingly more customer-centric insurer. Several CEOs have pledged not to layoff employees during the pandemic. Competitors that do not make similar pledges could risk losing the war for talent post-crisis. What M&A opportunities have been unearthed as company valuations have plummeted? Can we identify new domestic suppliers that are less prone to disruption before competitors lock up sourcing contracts? These are just a few examples of decisions management needs to stare down¹: there are numerous high-magnitude, high-velocity forces in motion, from trillion-dollar government bailouts to provide short-term relief and grants to eliminate global supply-chain dependencies over the longer term, to new multibillion-dollar investments in industries like biotech and 3D printing, to taking positions on questions of financial, operational, strategic and moral importance. It should also be noted that how a company acts in this global crisis can sear corporate reputations in the minds of stakeholders for a long time to come.

When the stakes are high and management is deep in the fog of war, after verifying the fundamentals and establishing situational awareness, the Board must lean in and engage differently than they have before, on two dimensions: (1) the first relates to *how* the Board engages with management, and (2) the second is to ensure broad thinking (stress drives myopia!) to help define or confirm *what* is most critical for management to focus on.

In this context existing management routines and processes will not keep up, and waiting for the data will be like driving looking through the rear-view mirror. Instead, it is now important to respond rapidly to emergent challenges of today, while preserving optionality for the future. The combination requires a number of elements to be in place, from a shared vision and vector, to trust and support between management and the Board, to frequent (daily, weekly) updates to the Board, as well as modified roles for the key executives due to the crisis.

Balancing real-time responses with longer-term strategic thinking is exceptionally difficult to do absent hard data and in the heat of the pandemic. But Boards are uniquely positioned to help management engage in revolutionary thinking in the midst of a crisis. Independent directors are removed from the day-to-day operations so they can think broadly and holistically about the future — a “crow’s nest perspective” on what threats or opportunities might be emerging — without being weighed down by the details of the current business strategy. These directors can raise a series of “have we considered ...?” questions that may unlock a paradigm shift in mindset, operating model, and industry. Board members also often have specific areas of expertise and extensive networks that might become relevant in this new context: as such, connecting management to individuals outside their core competencies can help shed light on otherwise difficult-to-decipher Gordian knots in this pandemic.

1 See Exhibit 2 for additional questions.

At some point we will emerge from the pandemic. If Boards of Directors keep their eyes on the horizon and bring broader and longer-term perspectives to management, with luck and skill organizations will navigate the rocks through the hurricane, keep the ship and crew intact, and ultimately navigate to safe harbor, maybe even finding new trade routes and lands in the process.

Exhibit 2: Specific questions by management area

	Recalibrated status to survive	Inspired thinking to thrive
Values and vision	<ul style="list-style-type: none"> • Are we staying true to our stated commitments and values? • Can we take this opportunity to restate our commitments? • How aligned are we on near- and medium-term vision for the organization? 	<ul style="list-style-type: none"> • What actions could we take to signal broader moral and social leadership in this crisis? • How does this crisis allow us to reimagine who we could be as a company? • Can we take this opportunity to reset our commitments?
Finance	<ul style="list-style-type: none"> • See Exhibit 1 	<ul style="list-style-type: none"> • What updates to our MD&A risk factors are needed? • Should we consider a restructuring line to account for one-time Covid-related expenses? (And how are competitors treating Covid-related expenses?) • Who might we partner with to inoculate against aggressive activist investors? • Should we adopt a Poison Pill as a takeover defense? • How could we leverage government grants and new private sector investments for long-term growth?
Strategy and strategic initiatives	<ul style="list-style-type: none"> • Which elements of our strategy remain relevant? • Which initiatives should be cancelled or put on hold? • What new opportunities appear to be emerging for us? 	<ul style="list-style-type: none"> • How does the company’s financial position impact what organic growth initiatives are prioritized going forward? • Should we consider divesting weaker/non-essential businesses or product lines? • Should we pursue mergers and acquisitions to increase our competitive advantage? (e.g., to expand our customer base, and/or reduce our dependencies on external parties)
Employees/ Human capital	<ul style="list-style-type: none"> • How are we ensuring the safety of our employees? • How have we adjusted the work environment/location of work? • How are we measuring employees’ productivity? • When/how deep do furlough or RIF plans go? What are various scenarios for large-scale reductions in force, and when would these need to be triggered? • What are succession plans for key leadership positions in case of infection/serious illness? 	<ul style="list-style-type: none"> • What expanded skillsets, talent profiles, and adjusted teaming models are needed in a New Normal? • What is our leadership bench strength and learnings about our leadership development needs? • How might new workforce locations be needed (e.g., better support network interfaces, medical resources, education)? • How would signaling “zero layoffs” affect our competitors’ degrees of freedom? • What are implications of work-from-home on the workforce, i.e. shifting from WFH policy to a WFH operating model?

	Recalibrated status to survive	Inspired thinking to thrive
Customer operations and supply chain	<ul style="list-style-type: none"> • How are we positioned to adjust operations to serve customers/clients during the pandemic? • Have we created alternate payment paths or arrangements? • How quickly are we able to respond to adjusted timing/location/product lines for delivery? • Are there supply chain choke points affecting day-to-day operations? • What other third-party operational risks exist, and what actions are needed to mitigate? • Have we identified alternative suppliers and supply chain paths? 	<ul style="list-style-type: none"> • What are temporary versus long-term shifts in our customer operations? • How will we measure customer engagement? • How might we accelerate a shift our business operations post-Covid (e.g., adjusting channel investment and capacity from analog to digital; product mix shifts)? • What opportunities do we have to stockpile key inputs to our operations? (e.g. taking advantage of low prices, increasing business resiliency) • Is there a need for greater diversification of our supply chain? • Could we form partnership or make acquisitions to acquire key input dependencies? • How can we test and implement alternative warehousing, delivery and transportation options (e.g., train, truck, drones; warehousing location changes)? • What barriers to entry have been disrupted in our industry, and across the value chain we operate in?
Risk	<ul style="list-style-type: none"> • What reprioritized non-Covid non-financial risks are critical to keep front and center at this time? (e.g., people, technology, cyber, fraud, third party.) • What triggers indicate crisis or need for action? • What immediate headline risks might emerge as a result of near-term actions? • What new/existing metrics are needed to monitor increased operational risks, and "New Normal" indications? • How will emergent risks be assessed (and what updated procedures are required to communicate these)? 	<ul style="list-style-type: none"> • How do we improve preparedness and inclusion of Risk teams? • How do interaction models need to change to open the aperture/prevent myopia to risks? • What technology or creative methods could illuminate key risk indicators or triggers? • What are longer-term reputational risks to the company based on our actions and response plans during the pandemic?

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