

# BOARDS MUST FOCUS ON THE HORIZON

Positioning for COVID-19 recovery



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# FROM SURVIVAL TO RECOVERY

Obligations for non-executive directors (NEDs) are easily stated but executed with difficulty. Arguably the most challenging responsibility under stress is protecting long-term shareholder value, particularly at a time when markets can barely agree valuations today let alone tomorrow. Whilst this necessitates a focus on survival in the short term, it means boards must divert sufficient attention to what comes next: recovery.

## MOVING OUT OF THE SURVIVAL PHASE

The survival phase of the COVID-19 crisis, in which organizations grapple with the challenges of lockdown and its near-term implications, is well underway. Here, firms need to understand the potential impact of the crisis on their operations, people, and suppliers, and how that might evolve in the short- and medium-term. These are the tactical and operational matters of keeping the business alive and defending its financial position.

The challenges and threats are myriad: Operations are stressed by process changes and staff shortages, and employee and customer behavior is altered. Supply chains are disrupted by demand fluctuations and government interventions aimed at "flattening the curve". But, navigating these challenges is the domain of executive management. In this role they will be fully occupied, leaving little time to plan for recovery. Indeed, if the executive team spends too much time focusing on what comes in the wake of the crisis, they will limit their ability to rapidly react to changes in the situation they are tackling today.

## FOCUSING ON RECOVERY

Getting ahead of the recovery will require ensuring that the firm has the right strategic focus for the world after COVID-19. Whilst the board has an important role in advising, supporting, and challenging leadership decisions around survival, it is in planning for recovery where NED engagement has the potential to disproportionately benefit the firm. Organizations need to form a view on how networks, supply chains, regulation, tax arrangements, and patterns of customer demand may land after the crisis and bundle them into scenarios around which plans can be made. The unique combination of skills, experience, and resources of NEDs is a considerable benefit to many firms. This will be particularly important for driving the conversation of what the landscape will look like post-COVID-19, and how organizations can reposition for success.

The challenge of the recovery phase should not be understated; the evolving economic outlook, unprecedented government interventions, widespread and varied sectoral restructuring, and changes in individual behavior create substantial uncertainty about what is to come. Boards

typically want, and need, to be involved in the debate and approval of strategy decisions, but can be reluctant to lead strategy design, a role they rightly expect to be played by senior management. In ordinary times this is appropriate. However, these are not ordinary times: If ever there was a time for boards to play a greater role in future strategy, it is now.

## OVERCOMING UNCERTAINTY

A systematic approach can help boards assess and adjust their future competitive positioning. Four dimensions of uncertainty need to be explored to consider how the world will normalize in both the medium and long term. Boards should be working as a team to form a collective view of the post-COVID-19 landscape across these dimensions, reaching out to contacts in government, academia, their suppliers, customers, and logistics partners to test that view in order to converge on a central scenario and understand implications of the alternatives. Many open questions sit below each of these dimensions.

### Exhibit 1. Dimensions of uncertainty

Society	Policy
<ol style="list-style-type: none"> <li>How will social behaviors change in terms of preference for living arrangements, locality, socializing?</li> <li>What impact will the crisis have on medium- and longer-term patterns of spending and saving?</li> <li>How will consumption behavior normalize?</li> <li>To what extent will changes in ways of working revert, or further evolve, during recovery?</li> <li>How will attitudes evolve to pre and post crisis themes (such as climate change or equality)?</li> </ol>	<ol style="list-style-type: none"> <li>How long will economic support remain in place?</li> <li>How will support vary over time?</li> <li>When will restrictions be lifted?</li> <li>What changes are here to stay (such as forms of “universal” income)?</li> <li>What policy changes might gain fresh support (for example broader wealth or property taxes)?</li> </ol>
Sector	Network
<ol style="list-style-type: none"> <li>Which sectors will recover, and which will be permanently changed?</li> <li>How will competitors fare, and how will they be positioned in the future?</li> <li>Where will new competitors arise?</li> <li>How is your organization positioned to defend or pivot?</li> <li>How do changes in adjacent sectors impact your own?</li> </ol>	<ol style="list-style-type: none"> <li>How is the crisis impacting your customers?</li> <li>How is the crisis impacting your partners and supply chain?</li> <li>How have your marketing channels changed and what change will stick?</li> <li>What new ecosystems might be created?</li> <li>Will your network grow, shrink, or evolve post-crisis?</li> </ol>

## **CHANGED SOCIAL PATTERNS**

Social patterns have been completely altered by the crisis. In most countries, socializing has essentially been impossible other than via remote connection. Tens of millions of people have been made redundant, and hence their means to survive without support taken away. At the same time their access to natural socialisation with colleagues and friends has been disrupted.

It is inevitable that society will be different post-COVID-19; the specifics though, are far from certain. Elements of this change will be an acceleration of existing trends; others will be novel and a break from prior trends. People are likely to be more comfortable working from home — but what balance will be struck between distance, convenience, and productivity? The requirement for distance-based interaction has been a boon for digital in sectors like banking — but what pattern will the branch network and customers' use of it take after the crisis? All the societal changes imposed by lockdowns will impact the shape of the new normal, including demand for office space, residential accommodation, and transport.

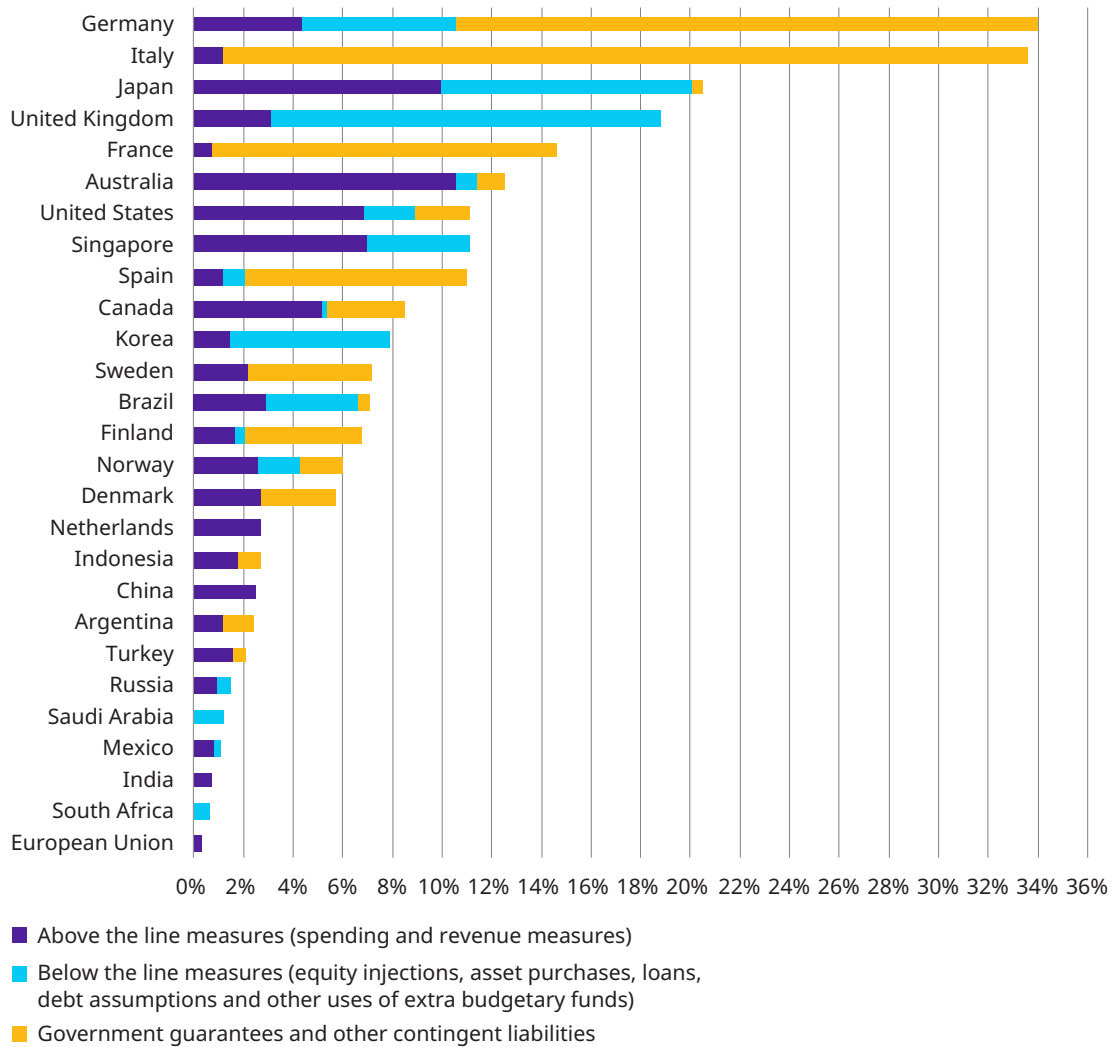
NEDs should spend time thinking about how their workforce will want to operate in the future, and the likely outcomes in terms of a balance between optimizing the interests of the firm and employees. This is a good opportunity for boards to think about the ultimate problems their organization solves for society in the post-COVID-19 world, and what needs to be true in terms of customer demand and workforce preference to do so in a cost-effective way. This process will require questioning fundamental assumptions around the role of the firm. As an airline for example, you can expect your mix of business and leisure travel to be different after COVID-19; as a manufacturer, your production plants may need to operate with greater social distancing for 12-18 months, or until a vaccine is found, and most likely with much reduced reliance on 'just-in-time' inventory.

## **POLICY FOR A NEW WORLD**

The global policy response to the crisis has been swift and deep. Some countries have invested an amount equivalent to a decade of GDP growth in staving off the worst effects of the virus, and the shape of that investment has been idiosyncratic (Exhibit 2). The lasting impact is going to be felt in two ways: in the withdrawal of policy support, and in the advent of new policy in the post-COVID-19 world.

**Exhibit 2. Selected fiscal measures in response to the COVID-19 pandemic**

Support as percent of Gross Domestic Product (GDP), G20 plus select advanced economies, data as of April 8, 2020



Source: International Monetary Fund (IMF)'s Fiscal Monitor Report

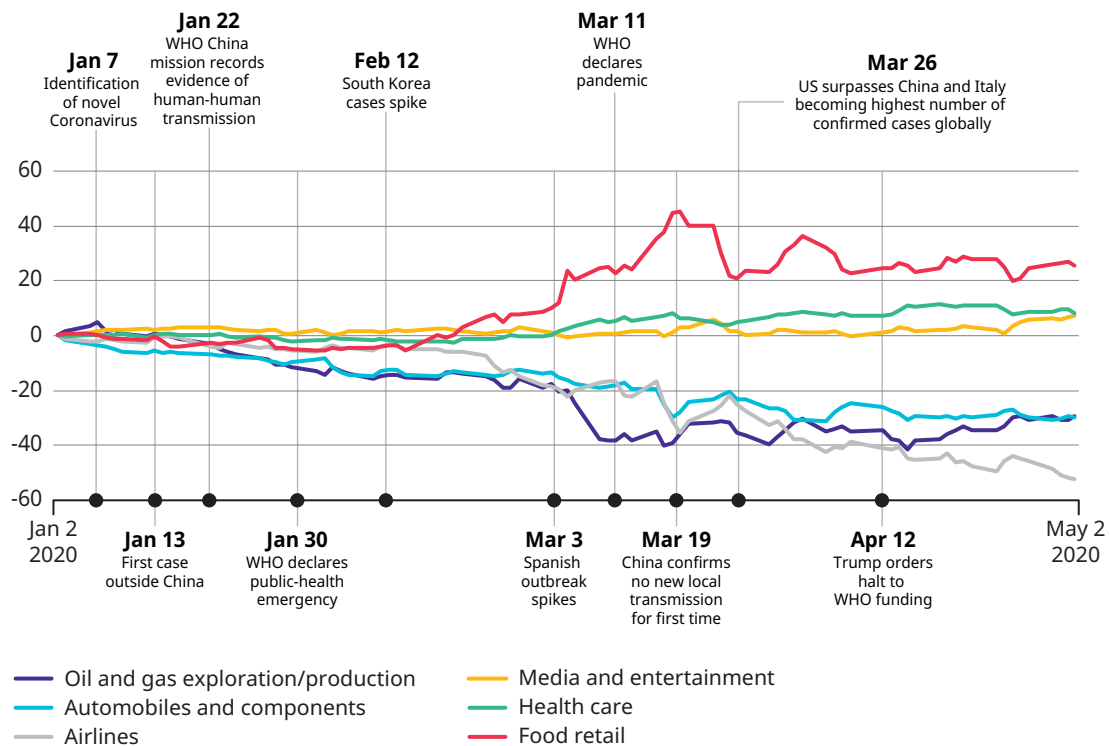
This level of government support cannot continue indefinitely; when and how it is rolled back will have significant implications for organizations and their customers. How will the end of payment holidays affect an organization’s liquidity and the liquidity of its customers? How will the potential extension of salary support schemes, and their eventual withdrawal, affect consumers and demand? Some of the ways in which policy evolves may simply be a conclusion to debates already well underway; on tax reform, for example, how best to realign taxation with an increasingly global and digital economy, or on the environment, how policy should support the transition to a low-carbon future. In other areas, for example redistributive policy and safety nets, more unconventional ideas such as universal basic income and a [broader application of wealth taxes](#), perhaps starting with [property](#), there may be a shift in approaches.

NEDs should be asking management to build scenarios that consider rolling back policy support in their 12-18 months forecasts. When it comes to post-crisis policy setting, NEDs can play an even more important role. NEDs should be connecting into policy discussions in their circles and in government to form a view on the likely landing point. On most topics this will be a well-trodden path as prior government research white papers will be available, even if their recommendations were not as yet implemented. Finally, a critical area on which NEDs should focus their experience and judgment is unintended consequences. The swift implementation of support measures globally has reminded policy makers of the need to thoroughly debate whatever structural changes will be required post-crisis. NEDs can engage in that debate now.

## SECTOR RECOVERY

That there will be sectoral winners and losers is clear. Whilst buoyancy in equity markets may be driven by a lack of alternatives as much as by genuine investor confidence that future uncertainty has been priced in, we are already seeing different recovery profiles across sectors. There are clues in sector recovery profiles from the Global Financial Crisis that reflect changes in consumer confidence and free cashflow; but how likely they are to be replayed here is unclear. How sectors would respond to a second wave of the pandemic is even more uncertain.

**Exhibit 3. Percentage change in share price by sector**  
Indexed as at January 2, 2020 relative to S&P 500 All-Share



Source: Capital IQ

The extent to which current winners' wins are bankable, or losers' losses are forever gone remains uncertain. Even those industries forecast to recover will take a while to do so: The Airline industry, expecting industry revenue to fall by [\\$314 billion in 2020](#), took seven years to recover from 9-11, and US domestic aviation industry made a cumulative loss for the [decade following that event](#). This crisis, estimated to put up to [25 million aviation jobs at risk](#), may require an even longer recovery given lockdowns and the potential for future recurrent waves.

NEDs should be seeking input from a range of economists and their own experience to form a dispassionate view of the recovery path for their firms' sectors. Importantly, this will require guarding against consciously or unconsciously anchoring to a conclusion that key indicators will 'return to trend'; this is unlikely for any sector. Accidental winners such as grocers will have had material pull-forward of future sales. Major streamed content providers have had a break from competing with local restaurants and nights out.

## UNDERSTANDING NETWORK EFFECTS

Network effects will be critical in understanding the direct impact of COVID-19 and anticipating the world afterwards. Food security has proved less imperilled through the crisis than security of medical supplies, largely due to government investment. Australia, for example, has invested around [AUD 748 million in fresh food capability since 2013](#). Meanwhile commodities markets have seized up more frequently in the last two months than the last two years, with [energy the most affected and agriculture the least](#). So far these network effects have influenced how the survival phase of the crisis has played out. Understanding network effects, and how pre-existing arrangements will change, is vital to plot a course for the future.

There is much that we do not know about future network arrangements. Current relationships will all be changed by societal attitudes, policy, and sectoral shifts. Supply chains that stretch across oceans and continents are likely to be reconfigured to instil more resilience in the future but are also dependent upon the pace of release from lockdown. Countries with greater control of their domestic infection rate are likely to reconnect sooner than others. This sequencing of resumed global trade will in itself affect the nature of future networks.

NEDs should be reaching out to fellow directors at suppliers, logistics partners, and major customers to form a broad view of how they believe their network partnerships might evolve. Enhancing resilience of network partnerships is a step all organizations and nations will take, ultimately trading off certainty of supply for the marginal benefits of 'just in time' and other cost factors. Again, the NEDs' unique combination of perspective, connections, and experience can help boards form a considered central case, or most likely scenario, for the pathway towards the new normal.

# POSITIONING FOR THE FUTURE

Executive leadership has a vital role to play in the future of every organization. However, with the massive day-to-day challenge of maintaining business activity in the face of deep and ongoing uncertainty, survival and charting a path through the storm should be management's absolute priority.

Once the storm has passed there will, of course, be winners. These will be firms that have reset their strategic focus appropriate to the changed settings of the new world. Ensuring firms are best positioned for this uncertain future is a fundamental part of a boards' responsibility. There is, therefore, a greater necessity for boards to think strategically and use their collective experience to ensure their firm is positioned for success. Both survival and recovery will be fighting for Directors' attention; too much focus on the former, at the cost of the latter, would be a mistake.



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