

Long-term governance oversight during pandemic disruption

A long-term pandemic will test management teams and boards alike. The board's principal fiduciary responsibility remains assurance. How it delivers this responsibility will have profound implications, both for immediate actions to address the crisis and in preparing for an unpredictable future.

This means ensuring that the management team has robust plans to respond and manage the organisation for survival and successful regrowth, with the board playing an active role in the development and execution of those plans, while not transcending into management's role and responsibilities. In this, the board has a clear responsibility to ensure that management is making tough decisions, particularly when they may prefer to avoid thorny issues instead of confronting them.

Throughout this tumultuous period, the executive team is likely to feel very isolated, so there is an even greater imperative for the board to partner with management, as a formal steward of the business. This requires empathy, understanding and a collaborative interdependent relationship between the board and management.

In the face of a pandemic, organisations and boards face major challenges managing their crisis response as scope and duration are both unprecedented and uncertain. Typically, after a crisis response we return to an environment which is essentially unchanged; however, the impact of the current pandemic will be globally pervasive and unpredictable with the potential to fundamentally change our world.

Against this backdrop, crisis management plans need to transcend the immediate imperative and prepare for an unpredictable yet changed future. These plans need to match the organisation's broader objectives, as well as their stated values, to ensure brand image and reputation are maintained. The board plays a crucial role in ensuring immediate responses are appropriate, while also making sure that the organisation steps back to plan for a very changed future.

What role should the board play in steering organisations through a crisis?

The board's core function remains – the responsibility for providing independent support and review to hold management to account, independent of day-to-day execution – including:

- Acting as the organisation's steward of all financial, social (people and community) and environmental assets
- Overseeing risk management to maintain corporate integrity
- Proving assurance by independently assessing crisis management planning, resourcing, execution and accountability

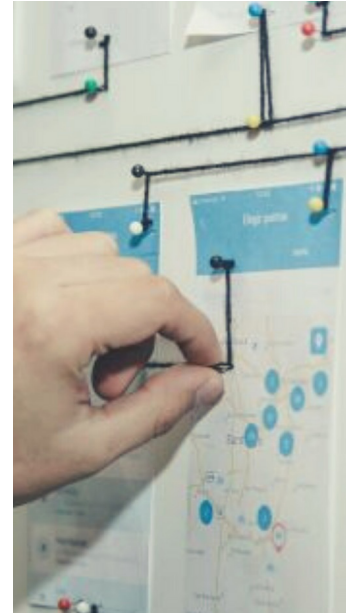


The board should proactively demonstrate visible leadership and confidence, and help management weather the storm. Your management team will be under extreme pressure, so demanding or hierarchically dictatorial boards will add limited value. Instead, empathising with management about the pressures they face, and checking how they and their family are faring, is more immediately useful – and also improves motivation and effectiveness in the longer term.

The board may also consider issuing a statement of values and principles to demonstrate leadership in guiding the organisation through the crisis and lay the foundation for the organisation's strategy once it emerges from the crisis.

Is your immediate response sufficient, timely and actively managed?

- Does your organisation have a crisis management plan? Does it consider realistic scenarios that describe the possible range of situations?
- Has the board reviewed your organisation's scenarios and plans, checking for robustness, challenging cash flows and funding implications?
- Does your crisis management plan align with your organisation's stated values and behavioural standards? Is it adequately resourced and integrated with established systems and operational protocols?
- Is the crisis management plan tailored to address known circumstances, yet able to accommodate future disruptions, both known and unknown?
- Is the crisis management plan 'live' and able to incorporate learnings or new information as it comes available?
- Does your organisation have a mission control room which provides a single source of truth or rapidly changing information about the nature and extent of the crisis?
- Is there an effective communication loop within the organisation which involves the Board?
 - Management should remain responsible for internal engagement
 - The board can be more proactive in external engagement, assisting management and delivering a consistent message (which has been crafted by management)



What next?

Once confident that the short-term response is appropriate, the organisation can turn to the development of a longer-term plan.

Management need to be actively involved and own the plan, yet they will probably be drowning in more immediate crisis management. Rather than absorbing more of your executive's time, the board can work with a small team, handpicked by management, to develop longer term responses, leveraging external experts in crisis management and developing strategic options as appropriate.

Key issues which should be addressed include:

- Your people
- Your customers
- Your supply chain
- Your financial stability
- Your longer-term objectives and strategic opportunities

Your people

For most organisations, your people are your greatest asset, and, during any crisis, this asset will be severely tested.

Managing their various stresses, both personal and professional, requires regular, clear, affirmative engagement. It is important for the board to make sure that management are talking and effectively engaging with employees constantly, informing them about the evolving situation and the organisation's response plans.

How will your organisation help its people?

- Engage, engage, engage
- Ensure employees understand that their health and safety is the primary concern
- Where possible, plan for longer term 'work from home,' investing in teaming and communications applications to increase productivity
- Develop plans to ensure people are paid or be very clear on how reduced pay options will be handled
- Involve your employees in developing options for a long-term downturn (e.g. part time work, reduced pay, sabbaticals, redundancies, leave without pay)
- Develop plans for managing your team once things 'return to normal'



Your customers

Your customers will also be impacted by the current crisis and face disruption.

Some will see demand evaporate entirely (e.g. airlines, hotels), while others see customers clamouring for their products (e.g. supermarkets, toilet paper manufacturers, health care facilities). Meanwhile, services provided on-site may no longer be required or could shift to being provided off-site. This will change both willingness and ability to pay established prices.

The board needs to ensure that the organisation's longer-term plans recognise these discontinuities and position the organisation well for the future.

How will your organisation maintain and enhance its customer base?

- Does your organisation dedicate its energy to its existing customers? Or seek new customer groups?
- Are your products or services valuable during this crisis? Is there opportunity to serve the greater good? What goodwill and brand equity could this build?
- Does your product/service delivery approach work for your customers? Are new delivery methods needed?
- What relationship does your organisation want with your customers? Do you maximise profit in the short term or "share the pain" with customers to cement longer term loyalty?

Your supply chain

Many organisations will face supply chain disruption, as most industries have moved aggressively to low-cost, offshore sourcing. These disruptions could severely compromise supply chains for many months.

How should your organisation adapt?

- Does the supply chain need to be reconfigured?
- Should more of your supply chain be moved onshore?
- Have you established redundancies if lockdowns affect suppliers?
- If there is an extended downturn, will your current suppliers survive? Can or should your organisation modify its relationships with suppliers to help them survive?
- Are there sourcing opportunities to reduce costs and/or improve reliability of supply?

Your financial stability

Through all this disruption, the board must ensure that the organisation remains solvent¹.

Work with management to ensure a robust set of operational scenarios are constantly evaluated and the associated financial implications understood. These should encompass macro-economic considerations, including evaluating significant economic downturn scenarios.

- What if the pandemic lasts for three, six or 12 months?
- What if demand is 50%, 20% or 10% below pre-downturn levels? Or dries up entirely?
- What happens to revenues and cash flows?
- How much of the organisation can survive and be effectively positioned for the recovery?

How is your organisation positioned to remain stable financially?

- Is cash available to survive a long-term downturn?
- What assets can be mortgaged or liquidated?
- Can additional sources of debt or lines of credit be established?
- What projects, activities and costs can be eliminated or deferred?
- What cascading action plans need to be implemented, as more information becomes available about the pandemic and its severity?
- Are there clear trigger points and associated accountabilities to ensure management act swiftly?
- Has your organisation communicated its solvency plan for to all key stakeholders, including your people, customers and suppliers?

Your longer-term objectives and strategic opportunities

Once the immediate crisis is resolved, we will return to 'business as usual', although 'normal' could look decidedly different.

The board plays a critical role in ensuring that the organisation is well positioned to capitalise on the myriad of challenges and opportunities this crisis presents.

¹ Note the Australian Government recently announced short term measures providing temporary relief for financially distressed businesses (current at 22 March 2020)



How will your organisation position itself for the new future?

- What are your organisation's recovery scenarios and sensitivity analyses?
- How do you position the organisation, your people, and its productive capacity to optimise output during a growth phase?
- Should you focus on different customer groups?
- Can your organisation use the disruption as an opportunity to restructure how it works (e.g. automation, more remote working)?
- Can your organisation capitalise on potential long-term shifts in the supply chain?
- What could happen to the competitive landscape?
 - Are there opportunities to create value from industry consolidation?
 - Is your organisation likely to be the consolidator or a potential target?
 - When should you start these discussions?

About the authors



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Keith leads our North American Practice. Former CEO and Chairman of ForestExpress, he has over 30 years' experience working with organisations to adapt and improve their operations. He works closely with boards and senior executives to help them develop strategies, turnaround their organisations and set them up for the future.



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