

Corona-economy

What's next?

Today, companies are facing a whole range of issues trying to understand to what extent the corona crisis presents threats or opportunities. Covid-19 is the risk front and centre for all businesses, worldwide. Already it's clear that in three areas in particular i.e. digital commerce, telemedicine, and automation the pandemic is proving to be a decisive turning point. Increased health awareness and a corresponding desire to live more healthily will bring lasting change to where, how, and how people behave. This will also trigger to include climate change and the SDG's in the process.

1. The process

What is happening is actually part of a natural, evolutionary process which has been disrupted by the coronavirus impacting all structures in place. Our running models, whether business, political, financial or economical, do not include any variables related to this pandemic with corrective measures therefore missing. Now we're in the eye of the storm and having to create instant actions to be resilient and regain perspective.

With no plan on standby business leaders had to come up instantly with a planning priority promptly investing in employees, supporting communities, and dealing ethically with suppliers in addition to shareholder value. The idea of the "triple bottom line: profit, people, and planet" has become more than ever mainstream, as have socially responsible investment aims. The coronavirus is forcing both the pace and scale of business model and workplace innovation.

Besides the overall health issue, the obvious concern is whether existing market positions will be retained without significant effort to reposition and respond to changes confronting industries and sectors as a whole. To this can be added the economic impact of stretched balance sheets and valuations leading to changes in business ownership. All these interactions form a receipt for fundamental remodelling of processes covering social, economic and political structures.

To understand, let alone know, how the balance of these developments will be is to sit tight on the Governance-Risk-Compliance (GRC) process path. Today, this is even more important as workplaces go virtual, the threat of cyber risks steadily increases and globalization versus regionalization forces companies to deal with changing regulations across continents. Simply put, businesses need GRC (risk fitness) in this new reality which will be driven by "purpose".

2. Risk fitness

The first step is to identify and understand risks which are very unique to your business. The best way to do it is to use the existing risk management principles to make improvements as per your current needs so that you will not only weather the present COVID-19 crisis, but also get back to high performance quickly.

As part of a strong risk governance program, it makes sense for any company to review their key risks on at least a quarterly basis. The four main dimensions concerned can be summarized as being:

- **Operational Risk** – This includes a company's people, including third parties who sometimes form the nucleus to support key business operations. The role of technology to automate functions that rely on people becomes paramount when people get isolated.
- **Financial Risk** – Financial risk increases when companies have trouble, for example, obtaining financing or when revenues and margins drop. Supply chain problems also may disrupt distribution and production, impacting sales. This, in turn, can cause missed revenue targets, a lack of clarity to provide forward looking guidance and facility closures.
- **Reputation Risk** – Opportunities to excel are also evident in any crisis – bringing forth a chance to show how you responded better than competitors. On the other hand, lack of

leadership creates mistrust and confusion. If the company can't handle the crisis, can they handle my business?

- **Strategic Risk** – Are you prepared to pivot? Companies need a full understanding of how the risks associated with all aspects of their business are interrelated. A company's ability to quickly triangulate key personnel risk, business resumption risk and operational risks will separate themselves from the pack and meet their business objectives.

Every company needs to prepare and invest for future events as there will always be another crisis, natural or man-made. Preparedness, in part, helps eliminate panic. The good news is that there is, and will be, growth beyond the crisis. Risk in business is ever present. One aspect in tackling the Covid-19 consequences results in creating value for society which ultimately benefits investors, so the idea that both can benefit is realistic rather than wishful thinking.

The number of risks companies face has, however, expanded, placing greater strains on boards, their skills sets and their ability to think through the problems. Some of them require a positive response: how can they be exploited? Others require a carefully planned response should they turn into a crisis. Either way, risk is about flexibility, preparation and being central to the board agenda.

Additionally, issues like cyber-crime is becoming more and more a stand-out problem in recent years as companies reformulate their business models to incorporate the use of vast quantities of customer data. Indeed, the issue has risen to prominence, not only because data breaches have become headline news causing reputational damage, but also because governments have moved to impose new regulations. Data breaches present security and privacy issues.

For some organizations, near-term survival is the only agenda item. Others are peering through the fog of uncertainty, thinking about how to position themselves once the crisis has passed and things return to normal. The question is, 'What will normal look like?' While no one can say how long the crisis will last, what we find on the other side will not look like the normal of recent years. That's why we need to see this situation as part of 'the' or 'a' process.

In short, resiliency, or the ability to absorb a shock in an agile way, and to come out of it better than the competition will be the key to survival and long-term prosperity. In that case, it will not be enough to tweak the business model; instead, one will need to rethink it. In sum, the priorities need to be rebalanced so that resiliency—in all its manifestations— becomes just as important to the strategic thinking as cost and efficiency.

Below are some common areas that will help you plan your risk mitigation:

- You can consider moving your budget from fixed cost to variable spending. Reconsider the rent on office space as more employees will be working remotely.
- Cash is king for businesses – it is wise to cut down unnecessary spending or expansion plans to conserve the cash. Don't compromise on innovation and re-vitalise marketing!
- While focusing on the operational elements of risk management such as taking care of people, having them work from home, it is also critical to think from the viewpoint of compliance by publishing clear HR policies, data security policies, confidentiality and other policies.
- You may choose to shift toward the localization of your supply chain so that you can be immune to the increasing protectionism and risk aversion due to a recessionary climate.
- Digitization: More than ever before, digitization is getting a real push, and everybody is on a fast forward mode to experiment with digital channels into every aspect of their business. But this calls for more investment in the cloud, data, cybersecurity, and digital risk management.
- Increase supply chain resilience: while it is good to localize supply chains, it is required to build capabilities in your supply chain to respond to unexpected events quickly or return to the earlier supply chain as soon as possible or innovate to get to a better state. Just in time will become just be sure.
- Be sure to connect and maintain repositories of all risk mitigation activities, procedures, and controls in one place to make it easily accessible when needed.

- Put internal controls in place to mitigate risks. For example, in the context of COVID-19, simple controls may include hand washing, cleaning, social distancing, etc.

After you have put all risk mitigation strategies and controls in place, you need to do auditing to check if all is working well. But during this restrictive time, you will have to adapt to remote auditing as it is a quick and efficient way to assess and minimize errors and enable significant savings on time and effort. The use of audit functionalities and smart devices has been greatly transforming the changing audit landscape.

- Replicate face-to-face working environments with virtual environments including phones, computers, and services.
- Capture organizational communication processes when defining remote auditing
- Virtual storage of records (shared or isolated)
- Broadcast messages – video conferencing, teleconferencing, email or group meetings
- Prepare well before virtual meetings to ensure every dialogue for decision making is covered and before concluding the meeting, clarify action items, owners, and deadlines.
- Have a central location that contains an up-to-date contact list with email, phone numbers with work time or work shifts.
- Set up online audit scheduling, format, and checklist.
- Use desktop sharing features extensively as necessary for reviewing records, procedures, documents, audit trails, procedure reviews, recording meetings, video conferencing, and audio conferencing.
- Use asynchronous communication such as SharePoint offices.

3. Purpose

What's happening now is that the rest of the corporate sector is going through a similar existential crisis, which will need it to reconsider its fundamental reason for being: namely its purpose. Among the principles are laws that place purpose “at the heart of the corporation”; regulation that demands high levels of engagement with public interests; ownership approaches that sees shareholders engage with corporate purpose; and corporate governance provision which asks for alignment of managerial interests with purpose and interests of stakeholders through reformed board structures.

Measurement should recognise investment in workers, society and natural assets; performance measures should record achievements against defined purpose; corporate financing should be long-term and investment should be made “in partnership with private, public and not-for-profit organisations” aimed at achieving the same corporate purpose. The disconnects between public perceptions of business and its potential for good, or between employees' desire for meaning at work versus what they experience, reflect a purpose gap.

The power of purpose is evident as the world fights the urgent threat of the COVID-19 pandemic, with a number of companies doubling down on their purpose, at the very time stakeholders need it the most. Business also has an opportunity, and an obligation, to engage on the urgent needs of our planet, where waiting for governments and nongovernmental organizations to act on their own through traditional means such as regulation and community engagement carries risk.

One of the most pressing questions is whether the development of “purposeful” businesses will continue amidst a crisis that presents an existential threat to so many companies. “Purpose” has become a byword for the future of business among corporate leaders everywhere, as companies and their boards came to terms with the loss of public trust already after the financial crisis and started playing their part in defeating global warming.

However, the way some companies have reacted to the Covid-19 pandemic has thrown a spotlight on the challenge big corporates face if they want to remain true to “purposeful” values. Corporate purpose identifies how the company assists people, organisations, societies and nations to address the challenges they face, while at the same time avoiding or minimising problems companies might cause and making them more resilient in the process.

A purposeful business is a business that has a clear sense of why it's created, why it exists, and what it's there to do. The conventional view of business is that it's there to make money for its owners and for those who run it. But what's increasingly emerging is a notion that purpose is more than that. The purpose of a business is that it is to produce solutions, to produce solutions to problems that customers and employees face, that society faces that the natural world faces; not in philanthropic sense, but in a hard-nosed business sense of doing it profitably.

Now there's a second part to it which is equally important. And that is that business does not, and should not, profit from producing problems for people or planet. And that is particularly important in circumstances such as the ones that we face. So, what is currently going on really brings into focus this notion of the purpose of business being there to solve problems and to solve them in a profitable sense, where that profit is not earned at the expense of others.

It's important for business to move towards being purposeful, because that is the way in which business creates a successful commercial activity. It's also the basis for producing an absolutely key element and that is trust: trust in business. Trust is one of the most important, and yet largely unrecognised, assets that companies have. By building up that trust business is able to move into a sphere where it has more loyal customers, more engaged employees, more reliable suppliers, more supportive shareholders and society.

And it's then the basis on which a purposeful business is able to become a more commercially successful business, because then it's associated with higher revenues, lower costs—in terms of employment costs and costs of supply, and lower costs of financing. And it's also the basis on which business can avoid being tied up with regulation that is imposed when it loses the trust of society. Hence, trust and purpose have moved to the mainstream from the slipstream in numerous respects. The effect of the pandemic has only been to intensify that significance and relevance.

4. The answer

Those who are going to succeed are the ones that have the most clearly defined purpose. In the short term, most businesses are faced with existential threats: they don't have enough customers (thus cash generators). So, you might say, well, surely the only purpose of a business in these circumstances, is to cut costs, and to focus on profit? The answer is, this is exactly the sort of circumstance in which a clearly defined purpose is of particular significance because associated with that purpose is a notion of values and principles that underlie that purpose.

And those values help businesses make the really hard trade-offs that are required between the choice of supporting customers or employees, societies, or investors; those choices are ones that should be guided by the values of the business, which reflect its overall direction of travel, its purpose. And once companies have clarified that, then the notion of what really matters in circumstances and crises like this becomes much more transparent.

So it's critical, in the short term. But it's also critical to the medium term in terms of beginning to pull out of the pandemic crisis and identifying what's going to come next. One of the elements of this crisis is the attitudes and factors that people hold really important are changing. And that's reflected in the changing preferences of customers and employees, going forward, as to what they value. So, it's the ideal time to 'stop, listen and look' with both customers and employees.

What business needs to do is to identify how those changes then reflect on the contribution that businesses can make. And that then comes down to, again, a notion of what the business is there to do, what is it established to contribute? And that then helps it to define its value proposition. The businesses that are really most at risk, at the moment, are the ones that leveraged themselves up, that paid out high dividends, that bought back their shares, that remunerated their executives excessively and find themselves now saddled with debt.

What business really needs, currently, is not just more debt, but also to be able to tap into equity markets and raise equity finance, that shares the risk with investors. And to do that, they need to be able to cut their dividends, to raise new equity issues. And to do that, they need to have a clear value

proposition, not only how they contribute to solving problems, but also how they can do so in a way that is, at least in the medium and long term, a profitable activity.

And that brings us to the long term. What purpose is about is defining that north star, that direction of travel, within which it then formulates its shorter-term strategies over the next few years. The companies that are really doing well at the moment, are those that recognise how the current crisis allows them to respond in such a way as to help address the crisis.

Through, for example, those fast food producers that are able to shift towards producing nutritional food that's going to address the food shortages that will be increasingly felt around the world. Those are the businesses that not only know how to react, but they have an instinctive sense as to how they should react because it's hardwired into that underlying purpose; and those are the ones that are really going to thrive, both in the short, and the long term. The same could be said for the world-wide drinking water strategy.

5. What next?

Business is fundamentally changing as a result of this crisis. The response to the financial crisis was to bring about a very substantial change in terms of the nature of our financial system. What's happening now is that the rest of the corporate sector is going through a similar existential crisis, which will need it to reconsider its fundamental reason for being, namely its 'purpose' as highlighted above. One will have to design a balance between repair, retention, innovation, digitalisation, internet of things (in the broader sense), financing, results and satisfaction.

So, business is going to recognise the significance of having a much greater degree of resilience in the future. The companies that are really most exposed at the moment are the ones that paid out the most to their shareholders in terms of short-term financial returns. The ones that have the greatest resilience are essentially equivalent to those banks that established the greater resilience, namely the greatest provisions, the greatest capital that they retain within the business, not pay out.

One of the things that this is pointing to is the importance of the equivalent of capital adequacy requirements that are now commonplace across the banking sector. Those are critical to thinking about resilience of business, in terms of the equity coverage of businesses, but also the amount of liquidity. Basically, companies need to have enough liquid assets to be able to see them through the types of crises that are happening at the moment. This will certainly last for six months, it may last for a year, and that's the sort of period that companies need a degree of liquid coverage and equity, to be able to see them through.

First, companies will build redundant, increasingly reliable operations to reduce vulnerability in a volatile market. And they will use redundancy to secure supply chains and optimize costs, and use automation to minimize costs and increase reliability, such as through the use of predictive maintenance. Second, remote economies will increase. This includes increased use of connected services and things, much less traditional retail and more direct-to-consumer sales. AI will increase companies' ability to conduct highly targeted marketing campaigns.

Country specific responses to the pandemic have highlighted the fact that, increasingly, different parts of the world may continue to act in more local, less global ways. Companies can adapt to this change by increasing personalization, a trend that has been accelerating in the past decade. AI has changed the rules of the game with the development of personalization engines capable of creating offers based on individual buying habits, seasonal demand, geographic location, and countless other parameters.

6. The plan: issues

Your business may be more fragile or cash-strapped due to lowered demand. Nobody knows how long the COVID-19 crisis will last. If the crisis is going to be a prolonged one, either the consumers will consume less or change the way they purchase. Now's the time to activate a robust action plan to position your business to navigate the COVID-19 crisis and be ready for a rapid recovery when things show positive signs.

- *Expand your market:* it's possible that your existing clientele just won't be able to make use of your products or services. Check in which way you can retain such accounts by offering co-creation fulfilling their needs.
- *Consider new ways to deliver your product or service:* you need to figure out how to make the interaction with your end-users and customers happen virtually.
- *Partner with other businesses:* some struggling businesses are teaming up with each other. It's a unique occasion to review partnerships and bolting on additional features to secure your core business.
- *Stay in very close connection with your customers:* your customers may not be buying from you right now, but you'll need them more than ever once things settle down and they can come back to you in person. That's why it's so important to stay connected through virtual channels. Here are a few ways to make that happen:
 - Send an email: Email your customers to let them know how they can get your product or service during this time. Offering virtual consults?
 - Update your website: of course, an email will only reach the people whose contact info you have. For everyone else, you need to update your website. Show that you're prioritizing the safety of your employees and community, people might be more likely to support you when things settle down.
 - Ask for ideas: no one knows better what your customers want than your customers themselves.

Letting your customers guide your crisis strategy ensures that you're providing products and services people want. Plus, it allows you to continue to market and connect with your customers even when they're not in the market at the moment.

- *Invest now in your business's future:* while business is slow, you can use the time to figure out what you can streamline for when your business is back in action. To begin with, identify what processes you can automate. If you're not sure where to start, there are a few kinds of tasks that are ripe for automation:
 - Tasks you have to do frequently or on a schedule
 - Tasks that involve moving information between apps
 - Boring tasks that don't require higher-order thinking
 - Tasks that take you away from what you really want to be doing
 - Automating your processes will help you now if you're short-staffed, but it'll also pay dividends in the long run.

A business continuity plan calls out the critical and time sensitive applications, vital records, processes, and functions to be maintained, as well as the personnel and procedures necessary to do so, while the entity is being recovered. It needs to have six major components: data critical analysis and data back-up plan (DCA & DBP), Business Continuity Plan (BCP), Emergency Response Plan (ERP), Contingency Testing Plan (CTP) and Disaster Response Plan (DRP)

Here are a few important steps to follow while creating a plan:

- Find and analyse Business Continuity Strategy requirements and document them.
- Review issues related to business recovery, technology and non-tech recovery issues for each support service.
- Identify, analyse, and document alternative recovery strategies.
- Compare internal and external solutions assessments of risk associated with each optional recovery strategy.
- Assess suitability of alternative strategies against the results of a business impact analysis.
- Effectively analyse business needs criteria, and the objective of planning and evaluation method.

- Senior management must be aware of the Cost/Benefit Analysis of Recovery Strategies and recommendations from experts.

Despite the uncertain times we're living in right now, with a risk management and business continuity plan in place, you won't miss a beat. One thing that's special about businesses that have a robust risk management plan is that they will get through the difficult COVID-19 crisis, will have a V-shaped recovery curve and bounce back faster than others.

7. Conclusion

As of April 10, governments across the globe had announced stimulus plans amounting to \$10.6 trillion—the equivalent of eight Marshall Plans. Most spending is directed to three areas—supporting citizens' basic needs, preserving jobs, and helping businesses to survive another day. Business leaders are adjusting to the next phase by combining government intervention with co-creation and collaboration with other stakeholders. Unfortunately, banks are slow to respond.

Companies are creating social value during the coronavirus crisis by thinking innovatively about what they can offer—and who could benefit. This is a way of thinking about what the type of purpose is that's going to be most relevant to business over the coming year. A recognition that what society is going to need is the ability to offer solutions. This is the first of many crises that we're going to confront.

The arrival of Covid-19 has put greater emphasis on risk preparation with planning being the critical concern in order to steer the process. Preparations for a crisis usually envisage a singular event over a finite period of time. Covid-19 is unlike that. Though government and societal action is now focused and emphatic, there is no real way of knowing when it will end. This is a crisis event unravelling over an indefinable period, in economic as well as health terms.

Boards will need to face not only managing their response to the virus but also incorporating a long-run event into their future risk assessments and crisis planning. There is another key factor the virus brings into play: who is involved in stress testing crisis plans? Often it remains the exclusive preserve of the CEO. However, there is some agreement that it would be better to have a dedicated team to be taken through the assumptions and preparations.

Without long-term structural changes, the deep-rooted inequalities exposed by the crisis will merely intensify. As well as tackling the immediate effects of the crisis, the international community now has a unique opportunity to adopt policies together with the businesses aimed at achieving social justice and a human centred future of work.

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