COVID-19: Paradigm Shift in the Boardroom (An Expanded Discussion)

The discussion below is a more complete coverage, including examples, of the topic addressed in Issue 127 of *Board Perspectives: Risk Oversight* (which is available at www.protiviti.com/US-en/insights/newsletter-BPRO127-COVID-19-paradigm-shift-boardroom) and on NACD/BoardTalk (see blog at https://blog.nacdonline.org/authors/42).

The global COVID-19 pandemic is a different experience from other catastrophic events like the September 11, 2001 attacks and the 2007-2008 global financial crisis. It is spawning new thinking in all quarters, especially in boardrooms.

It's been several weeks since coronavirus disease 2019 (COVID-19) truly captured everyone's attention across the globe. With new developments almost hourly, it feels so much longer. While it is difficult to observe the awful suffering, it is inspiring that hundreds of thousands of individuals (including volunteers) in research, healthcare and first-response positions are putting everything on the line to bring the suffering to a halt.

When September 11 occurred, there were many days of uncertainty amidst the images of the unthinkable, but all parts of the global economic machine were in place and life went on. The global financial crisis over a decade ago was driven by a serious global liquidity crunch and resulted in hardship for affected companies and many individuals, but no one doubted that the economy would rebound and life would return to normal — the way it was before the crisis began.

COVID-19 is the pandemic infectious disease that experts have feared for decades. What's different about the COVID-19 phenomenon is the abrupt cessation of our way of life for an indeterminable period. As a fight on two fronts — economic and biological — COVID-19 is a game changer in terms of its human and business impact. However, it is also prompting fresh thinking that could very well alter business as we know it and quite possibly drive positive developments for the long term.

Key Considerations

As CEOs focus on managing the crisis, directors are having to approach their advisory roles in ways they never have before, both physically and intellectually. Every industry has its unique challenges. Those with business models dependent on herding and crowd-gathering — such as sporting events, concerts, movie theaters and restaurants, among many others — are focused on their very survival, and many may emerge from the pandemic as mere shells of their former selves with a priority to rebuild the business. Industries with a strong digital channel are faring better than those without this capability. The pathway forward for CEOs and their boards may be clearer for these companies.

Whatever the circumstances a company may face, paradigms are changing in the now virtual boardroom as fundamental assumptions of directors, CEOs and executive teams about markets, customers, supply chains, the workplace, technology and other factors underpinning the business model are undergoing a sea change. If directors are not in tune with these fundamental shifts, their value to the CEO they advise and to the shareholders they represent is diminished.

These shifts call for quality thinking and informed judgement in the virtual boardroom. This is a time to take a deep breath and engage in intelligent conversation. It is what shareholders need and expect from their directors. The reality for the board is that few CEOs have faced a challenge quite like this one, the most serious health event in a century.

Things are going to be different, requiring different ways of thinking. When advising and supporting the CEO both during the pandemic and in its aftermath, directors should keep in mind five "macro-level trends" that can impact the organisation's culture, go-to-market strategy, business model, cost base and risk perspective.

1. **Workplace design will be reimagined, increasing employee flexibility in many areas through a virtual work experience.** Those companies that have been able to transition to a remote work environment have engaged in an exercise of discovery. First, videoconferencing, rarely used in the United States until a few months ago and now becoming the norm, is not so bad after all. Even the board community is recognising the possibilities going forward. Second, many employees are proving to be just as productive, if not much more productive, in this environment. And third, many employees appreciate its impact on quality of life, even with schools shut down. Imagine what would be possible with a remote workforce not encumbered by this added complexity.

Those companies that have been unable to transition to a remote work environment because of the nature of their business or employees, or outsourced providers who have important roles but aren't remote-capable, are experiencing difficulty during the crisis. This lack of remote-ready workers is magnified in sectors experiencing a significant spike in business, e.g., financial services, retail, and logistics and distribution.

While not all roles can be performed remotely, the pandemic experience raises several questions:

- Why not transition as many activities of the organisation as possible to a virtual setting?
- Why not reduce time-consuming commutes to high-rise offices when the work could be done at home or at a more conveniently located work hub?
- Why not cut down on nonessential travel?
- Why not appeal to the work/life balance aspirations many employees have?
- Why not abandon the "9-5 mentality" entirely and allow people to work where they want and when they want, holding them accountable for results?

Because every industry is different and each company is at a different position on the digital maturity continuum, these and other related questions will likely be answered in various ways. But they are very important as the way they are answered has powerful implications for employee flexibility, reduction of pollution levels, use of commercial real estate, the kinds of technology deployed in the business, and talent recruitment methods. The trickle-down effect of these decisions affects virtually every industry, either directly or indirectly.

2. **Business models will need to adjust to post-pandemic customer/consumer behaviour.** A company's planning around expected changes in behaviour and consumption patterns in the post-pandemic marketplace, the likely effect of those changes on the company's offerings and the appropriate response to those changes will impact its ability to pivot the business model accordingly. For example, consider the present situation. As consumers flock to online shopping and home delivery in response to the crisis, is the company doing everything possible to accommodate them? If so, is this interaction with consumers likely to continue post-crisis? Has the company thought about how the pandemic experience is likely to alter customer/consumer preferences? For example, will customers/consumers:

   - Be influenced by the time they spent in isolation at home during the crisis in making choices around convenience (e.g., home delivery, curbside pickup, live streaming, home cooking and other home-centric behaviours)?
   - Work more from home, as fundamental changes to the workplace drive fundamental changes in consumer behaviour?
   - Be more conscious of the environment in making purchasing decisions, given the dramatic decline in pollution levels during the pandemic?
   - Be so impacted by the home-centric lifestyle experienced during the shutdown and by concerns over personal and family health, at least over the short term, that they exercise greater caution concerning choices of product and service experiences, expectations of provider hygiene when physical interaction is involved, and decisions to herd, travel or frequent congested areas?
   - Continue to exercise their social instincts, if health concerns inhibit behaviour; if so, in what way?
   - Care more about specific countries from which products or product components are sourced?

   While the answers to these and other questions may not presently be entirely clear, management's assessment of them may lead to opportunities to innovate and enhance the customer experience and to differentiate the company's offerings. When advising management, it is important that directors inquire whether the company has access to reliable market data and analytics regarding customer/consumer wants as well as their preferences for satisfying those wants. Monitoring buyer behaviour is of vital importance, both during and after the crisis.

3. **Past decisions to build tight coupling and complexities into supply chains will be revisited.** The past 30 years of interconnectivity spawned by globalisation have led to increased use of single-source strategic suppliers, just-in-time manufacturing and delivery techniques, and complex logistics. These trends have emphasised trade-offs in which quality, time and cost considerations have tended to override business continuity considerations. If periodic disruptions in the supply chain were mere reminders that these trade-offs are not without risk, the COVID-19 pandemic has made the point crystal clear. Companies are likely to pay more attention to:

   - Where key suppliers are located;
   - Reliability of second- and third-tier suppliers;
   - Availability of qualified, alternative supply sources in major markets and the ability to pivot to those sources;
   - How long suppliers can operate during a catastrophic event; and
   - How long the companies themselves can operate during a prolonged disruption in the supply chain.

The sourcing of materials and components that are a priority from a national security standpoint, particularly related to healthcare and other strategic needs, will garner close attention from both the public and private sectors, as will the concentration of key suppliers in a given country or region.

4. **A corporate culture founded on trust will prove vital to a company's resiliency and ability to pivot in the face of changing market realities.** Trust will be hard to retain and may even have to be regained if huge chunks of the workforce are laid off. In a virtual environment, the human touch is needed to engage a diverse group of stakeholders who understand customer behaviour, the strategy, the direction of technology and the evolving marketplace. An ongoing dialogue across the business, alignment of compensation and other incentives with the goal of balancing short- and long-term performance, senior management involvement, and an active board help shape the desired culture.

   In this environment, organisations that are agile and able to pivot quickly will outperform those that are not. Companies that experience difficulty will be the ones that cling to the status quo, lack a full grasp of the issues and are being second-guessed in every major decision they make. The discipline to act decisively to refine strategic, business and product plans in response to changing market realities is the hallmark of a resilient organisation. Communications flowing freely up, down and across the company help ensure that decision-makers are in direct contact with the unvarnished truth, so they can build trust, stay in touch with the customer and foster a resilient organisation that embraces change. Strong communications coupled with a strong innovation culture position the organisation to pivot and find creative solutions more effectively than organisations with a culture devoid of these attributes.

5. **Organisations that advance their digital maturity and ensure the hygiene of the technologies enabling their work environment will be more successful.** The competitive environment has driven many companies to expand their deployment of digital technology to innovate the customer experience, digitise new products and services, automate internal processes, improve information for decision-making, and enhance workplace flexibility. Often, the focus has been on improving quality, compressing time, reducing costs and preserving margins. But these initiatives have also increased the resiliency of these organisations in these troubled times, enabling them to reach customers on grounds of their choosing and transition to a virtual work environment.

   As virtual workplaces and digital channels take root, companies should take the necessary steps to secure the technological platforms that enable them to function and protect sensitive data and information flows. Most corporate networks are not set up to allow a majority of workers to connect remotely. As millions of workers log on to corporate VPNs through insecure routers and personal devices, the risk of cyber intrusion increases exponentially. Furthermore, watch for expanded phishing campaigns seeking to take advantage of a decentralised workforce, as they often leverage current events to gain credibility and the attention of unsuspecting victims. Increased vigilance is required to protect the sanctity of corporate networks, systems and information assets.

> Organisations that have not advanced their digital maturity face the spectre of customers transitioning to competitors able to satisfy their needs as the market transitions to a new equilibrium, and not returning once the crisis subsides. These companies should resist postponing automation initiatives as part of cost-cutting exercises as these investments can make a difference in terms of their competitiveness during the recovery period. Further, there may be an expedited focus on infrastructure, network expansion and 5G initiatives that could unleash a disruptive force similar to what occurred over 20 years ago when online payments and mobile capabilities and services sparked the exploitation of B2C e-commerce on the web. Will companies be ready? Organisations making cuts in areas in which they should be investing — including the teams that could help them reinvent their business — risk alienating the very people who could drive their future at a time when those people should be valued more than ever.

These are trying times reminiscent of wartime conditions as nations are under attack. The experience is likely to be life altering for many. The five megatrends discussed above constitute a powerful paradigm shift for both the C-suite and boardroom. As society transitions from enforced isolation, the environment may be one in which markets must function with the pandemic threat looming large for a period of time. As markets ultimately evolve to a new equilibrium, the companies most likely to thrive in the years to come are those with resilient cultures that can address evolving workplace dynamics and adapt to customer needs, wants and preferences in an intelligent and innovative way.

Questions for Boards

Based on the risks inherent in the entity's operations, the board should consider how the organisation is addressing the five megatrends discussed above when advising the CEO and executive team.

How Protiviti Can Help

As the COVID-19 pandemic continues to disrupt business activity across the globe, organisations are reconfiguring the workplace and adopting new business practices to align with social distancing, stay-in-place directives and other public health protocols. As they do so, they are confronting questions related to their resiliency in shifting to a distributed workplace, adopting appropriate security measures around the enabling technologies they choose to deploy, and implementing ongoing changes in business models and processes affecting how they interact with people in the aftermath of the crisis.

Protiviti has the experience, know-how and expertise to help companies navigate these challenges. We can provide companies with access to industry, digital and innovation talent who can bring disruptive thinking to the table in helping them rethink their business, not just in the short term, but in the medium to longer term. Companies can benefit from working with our professionals who share their values, have knowledge and understanding of the technologies they deploy, and are able to draw on a risk perspective. Our people are fully operational as our firm functions remotely during this crisis, so we're with our clients all the way — now, in the next phase and once the eventual equilibrium is achieved in the market.