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Governance and Business Continuity / Recovery during the COVID-19 Pandemic

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Governance and Business Continuity / Recovery During the COVID-19 Pandemic

The uncertain predicament triggered by the contagion of COVID-19 will no doubt trigger Boards to review, evaluate and adapt their **business continuity/recovery plans (BC/RPs)** and strategies in response to this exogenous health threat.

Each Board's response to the pandemic will be dependent, to a large degree, on the decisions of the national or state governments. If ever an event in the external environment was to have a major impact on your entity, it is now. Much of the macro decision-making levers are in the government's hands.

One thing that is certain is that in times of crisis, **leadership** must come to the fore and from a governance perspective, **the Board must lead its entity through the situation, set the agenda and verify actions**. In this respect, it must also work with and through its executive team (lead by the CEO) in a partnership like never before and let management steer the entity through this difficult period.

A well-crafted and implemented business continuity/recovery plan must aim to quickly and efficiently restore normal service as soon as possible with the Board, senior executive management and staff applying the most **productive adaptive measures and actions** they can muster.

So, what productive adaptive measures can Boards and management apply **to sustain business continuity/recovery**?

1. Firstly, **distil critical operational choices** with your executive management, such as they exist now during the pandemic escalation phase. This requires assurance that any actions are based on **credible authoritative information** and certainty of source authenticity regarding the development of and relief from the pandemic's effects. [Start with - <https://www.australia.gov.au/>]

Then **execute important co-ordinated emergency priority actions** as soon as practicable. These might include:

- Ensuring **employee, consumer and relevant stakeholder safety**

If staff are working:

- at the interface of customer service - ensure they maintain **compliance with public health directives and obligations**
- internally with the organisation but not in contact with external persons - make sure management have established **guidelines for personal hygiene and distancing and minimal social congregation**
- remotely (at home, etc) - make sure management have established **guidelines for remote work** to ensure least workflow interruption and

maximum practicable productivity and to mitigate any associated risks, especially regarding:

- functionality – workspace, bandwidth, equipment and connectivity quality
 - information transfer
 - cyber security threats
 - privacy matters
 - upskilling technology competencies
 - trust
 - collegiate connectivity
 - morale
 - psychological impact
- **Ensuring (internal and external) communications are right** – it must be frequent and clear and establish who will be the spokesperson(s).
 - **Short term maintenance of revenue streams and cash flow** – consider the...
 - impact of consumer demand shock (will demand decrease/increase)
 - impact of supply chain disruption
 - threat of insolvency – investigate the recent Safe Harbour changes and relaxation of insolvency and what this means.
[The Australian Federal Government announced temporary amendments, effective 24 March 2020, to insolvency and corporations' law in response to the challenges that businesses are facing as a result of the COVID-19 pandemic. These amendments provide a safety net to businesses in challenging times to foster survival for those businesses once the crisis has passed.]
2. Next, begin to **formulate different scenarios** that might be expected, i.e. analyse the various “what ifs” from the most optimistic to the most pessimistic considering various aspects such as:
- effect of **time** passed before normality can resume – three months, six months, etc.
 - the different markers of **economic activity** severity, e.g. employment, consumer spending and confidence, access to finance, supply chain disruption, etc.
 - **workforce** health and readiness – skills availability, employment flexibility, wages, workplace adaptations, productivity etc.
 - commercial arrangements with key **strategic dependencies** – suppliers, landlords, financiers, insurers, advisors, contractors, partner alliances, JV's, etc.
 - **government assistance.**

3. Planning and execution of business continuity/recovery plans

(a) Where the pandemic has resulted in reduced activity and demand

Plan for 'care and maintenance' or 'survival mode'.

- **Preserving precious capital is mandatory** – explore...
 - short term **finance** options (deferments, reduced interest, short term loans, etc.)
 - **cash flow** generation strategies (e.g. get invoices paid, offer discounts on inventory, sell surplus assets, challenge discretionary spending, seek overhead reductions, investigate revenue optimisation tactics and cost reduction options, etc)
 - **government assistance** programs (e.g. tax concessions, government backed loans, wages assistance, etc.)
- Compassionately and transparently **deal with your people** if you need to wind down operations in an orderly manner - this is critical, you will need them when you are ready to recover.

Could you implement...

- Flexible work practices
- Voluntary pay reductions
- Voluntary roster changes (reduce hours, overtime)
- Freeze pay rise / new hires
- Voluntary leave
- Stand downs and redundancies (may require legal advice)

[See: Fair Work Ombudsman - Coronavirus and Australian workplace laws <https://coronavirus.fairwork.gov.au/#roster-changes>]

- **Maintain communication with your client base and stakeholders** – explain how the situation has affected you and what you are doing to respond. Let your customers/beneficiaries know what's going on, and re-assure them as to how you plan to maintain an on-going relationship arrangement – e.g. defer or reduce regular direct debit arrangements or extend or use of time critical services (e.g. Qantas frequent flyer program, gift card use-by, etc.)
- Are there **new opportunities** that might have emerged from the changed situation - think outside the box - could your entity...
 - quickly re-tool/skill or re-engineer your product/service delivery/distribution to take advantage of opportunities in the new environment to produce essential service products? e.g. brewers and

juice makers are turning their hand to sanitiser, orthotics makers are printing eye shields, packagers have retooled to make hundreds of millions of medical masks, V8 supercar teams are making ventilators.

- produce/deliver your products/services in a different format? e.g. gyms hiring out trainers for one-on-one outdoor sessions, food outlets ramping up take-away options, etc.

(b) **Where the enterprise is part of the response to the pandemic**

Plan for higher levels of activity, potentially beyond normal limits but the aim is to perform to expectations.

- Work out **what is 'mission critical'**, devote your best talent to it and give them the available resources as needed.
- Carefully consider what you might need to **trade off** (i.e. sacrifice what may be necessary under normal circumstances) to achieve expediency to get through this experience (especially where time is of the essence)

Interestingly, the competitive nature of **market participants may take on a much more collaborative approach** to deal with the pandemic. This will most likely be evident in a heightened willingness to share commercially valuable information about the COVID-19 by all. Initiate, explore and carefully make use of – and contribute to - this spirit of collaboration where possible.

(c) **In the depths of the pandemic, when it's at its most extreme**

Begin to **prepare contingent options for recovery** - formulate short term priorities as we emerge from the pandemic (medium-longer term plans may have to wait until the level of uncertainty reduces to an acceptable level in your sector)

Target three priorities to **prepare for short term recovery**:

- **financial resourcing** – generation of cash flow - debt 'deferment/hibernation' (talk to financiers), inventory discounting, liquidate excess stock, plant & equipment, new "specials", etc.
- **client/consumer/beneficiary priorities** - re-contract with relationships nursed along during the worst of the pandemic, reach out and connect with clients
- **maintain workforce continuity** – review essential skills/tasks required (choose roles first - then the person, shift retention to personnel directly related to output), utilise government assistance

- (d) **Once the pandemic peaks and begins to recede** and the government/regulators indicate that normal service can resume.

Be prepared to quickly **execute your short-term plan priorities** to tentatively steer the business back into a changed environment. For example:

- Embrace the concept of 'Building Back Better' – don't waste the opportunity during this crisis to reset your business! Determine what aspects of your current **business model** may need to be re-engineered / re-structured to adapt to any changed situation – especially ask yourself whether you need to consider any of the following:
 - Reflect on any changed dynamics of or within your **target market** segments
 - Refresh and revitalise **market engagement mechanisms and relationship approach** with your consumer segments
 - Re-evaluate how consumers or beneficiaries' access or how you **deliver and distribute** your products and services – have preferences changed?
 - Re-design aspects of your core or peripheral **deliverables** – are the products, services or activities you provide still relevant?
 - Re-assess the effectiveness and efficiency of your **business systems, infrastructure, facilities and** the capability and competency of the skills of your **people**
 - Re-establish and reinforce **partner networks, strategic alliances** and other dependency relationships
 - Review **revenue streams** and your **cost structures**
 - Re-examine the appeal of the **value proposition** of your deliverables and the benefits they deliver
- Review your **financial status**:
 - Assess your cash position, borrowing capacity, line of credit, etc to ascertain financial resource capacity
 - Work with your accountant or advisors to develop a financial recovery plan
 - Contact lenders, creditors and debtors early to discuss deferred/reduced payment options
 - Assess and access financial help on offer

- Consider the extent to which you can begin to **re-establish services and/or production and supply-chains**, etc.
- **Re-connect to the marketplace** – contact and engage with clients / consumers / beneficiaries, suppliers, partner networks, etc. Develop a post-disaster marketing and promotion strategy
- **Begin re-hiring** and give staff information about your plan for recovery and what is happening to your business – begin with front line staff

(e) **The recovery phase**

While the usual intention of a business continuity/recovery plan is to ‘restore normal operations’ (usually after an internal business calamity – production/supply interruption, fire, weather event, IT hack, reputation damage, theft/fraud, etc), this isn’t the case in this instance – mainly as the ‘calamity’ is an external economy wide disaster (on par with a war, international sanctions, etc).

The business continuity/recovery plan will require a deep understanding and recognition of how the business environment has, or has not, changed. This is a **strategic conversation for the board** who must comprehend the significance of change and **set a new strategic direction** accordingly.

Boards will need to **engage in an ongoing dynamic exploration, investigation and analysis of what the new environment might look like**, as information and intelligence comes to light. The external (regulatory, economic and social) environment is likely to remain volatile at a national and international level for some time. This will present both opportunities and challenges.

Some matters the Board might consider could include:

- How might **consumer and supplier behaviour** change in your industry sector as a result of the changed environment? e.g to what degree might the pandemic accelerate the transition of customers’ comfort with online commerce - retailing, business transactions, services, education and training, etc.?
- Could **workforce** experience with remote or more flexible working become a source of cost reduction and operational flexibility or efficiency in the future?
- What **new opportunities** have spring up or **different challenges** are presenting in the aftermath – **revisit your SWOT analysis** to determine those opportunities and threats and re-assess the entity’s ability to respond – determine its capabilities, capacity and competencies and the constraints, hindrances and barriers confronting the business.

Some encouraging words for distressed business

"Experienced company directors [should not] summon the administrators or ... abandon a substantial trading enterprise to the liquidators as soon as any liquidity shortage occurs ... a reasonable time must be allowed to a director to assess whether the company's difficulty is temporary and remediable or endemic and fatal."

[Ref: Hall v Poolman (2007) NSWSC 1330]

Reference sources:

- AICD – Education Resources
[<http://aicd.companydirectors.com.au/resources/covid-19>]
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[<https://www.lighthouseadvisoryservices.com.au/>]
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[<https://www.linkedin.com/in/rischbieth/?originalSubdomain=au>]
- Turnaround Management Association
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