

# Preparing for another crisis

*The pandemic provides boards and managements with the best experience to prepare for a crisis - even though the current one shows no signs of abating*



These past seven months are proof regarding how resilient (some) companies are. This, however, does not in any way mean that companies can shrug away the challenges that the next catastrophe may throw – even as the current one shows no signs of abating. The last two decades have been peppered with events like 9/11, the financial crisis, the taper tantrum and now Covid-19, with many regional and consequently less calamitous occurrences. These are all reminders that companies need to be prepared not for ‘if’ but ‘when’ the next major crisis hits. To do so, companies must change the conversation on the board.

The World Economic Forum’s [Global Risk Report](#) 2020 highlighted infectious diseases as a high impact event, yet it was not high in board agenda’s. Adam Sweidan, a London-based investor and environmentalist has coined the term [black elephant](#) to describe such events. The term is a cross between “a black swan” (an unpredictable or extremely rare event that is beyond what is normally expected of a situation and has potentially severe consequences) and the “elephant in the room” (a problem that is visible to everyone, yet no one still wants to address it). How does one deal with these? Companies need to constantly engage in developing multiple scenarios and possible responses – and one with no catastrophe too. A

parallel that is often ignored are those risks that are listed in the offering circular of a company at the time of its Initial Public Offering. While a Board will say there is little it can do if there is a skirmish on the country's border, this is just the type of question it should address – namely what its response will be.

Boards need to allocate more time for such contingency planning. They should spend time with senior management to discuss how they will react under various 'what-if' scenarios including the likelihood of their occurrence. The low probability events could be listed (- rather than over analysed), with boards spelling out the minimum protocols to deal with these. The plans should include both digital and physical solutions. The recent pandemic will no doubt provide guidance, but they need to move beyond and look at physical disruption as well, for example, on account of flooding or earthquakes. While this may lead to emphasising digital solutions, a global internet outage is a black elephant event that should not be ignored.

It also has ramifications for board composition. The current crisis stresses the need for diversity of experience and expertise on boards or as described in a recent [Harvard blog](#) 'a panoply of perspectives that diminish blind spots in critical decision-making.' They authors go on to suggest that the board should consider creating a special or new standing committee that focuses proactively on contingency planning and crisis management. Whether this is done through a new board committee or rolled into the responsibilities of the risk committee or left to the senior management team, drawing such scenario analysis needs to be on the board agenda.

The pandemic has also put a spotlight on how different our way of working is set to become. The last few years companies have focussed on out-sourcing and just-in-time inventory management, to name just two ways in which businesses have changed. The pandemic has brought-out the risks of such a strategy including those from events that may take-place in far flung geographies and the need for building in redundancies and back-ups. And using the crisis to extend or delay payment to suppliers to bolster financial returns is a short-term fix, not a solution. All such changes will come at a cost, but companies must realize the risk of cutting costs to the bone.

The future is decidedly set to become more digital. Employees working from home have been given access to remote technology. The tools to maintain business continuity have been provided on an 'SOS' basis. Employees will need to be formally trained on collaboration tools and protocols, cybersecurity and data-privacy.

What is noteworthy is the resilience that people and teams have displayed during the last seven months. Employees have been quick to innovate and adapt. Companies need to reciprocate through compensation and greater focus on healthcare and worker safety

Change will not happen instantaneously. Boards and managements will first need to debate these and get a buy-in within the firm regarding the path the company might choose to pursue. And the pandemic provides them with the best experience to prepare for the future.



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