



Past experiences, future impact

Chairs' research report

December 2020

Recover

Embedding change and restoring focus on other priorities

Following the initial 'respond' phase, organisations shifted into 'recover' – the phase in which change is embedded and focus begins to return to other priorities.

Business continuity

In the wake of the first lockdown, organisations focused on business continuity, contingency and disaster recovery planning. Crisis management saw the pace of change accelerate, testing the ability of organisations to respond to the unexpected. Chairs reported they were able to repurpose resources within the organisation to maintain the strength of the balance sheet, which allowed organisations to effectively navigate the uncertainties of the pandemic.

Scenario planning

A focus of boards has been to encourage senior management to put their organisation in a stronger market position by aligning strategic decision-making to business continuity and disaster recovery plans. Given the uncertainty of the pandemic, boards and management had to act decisively to mitigate risks and plan for recovery across multiple scenarios.

Some chairs noted that as organisations moved into recovery mode, discussions turned to the future of business. This led to an examination of traditional business models as well as scenario planning sessions.

Chairs collectively agreed that boards increasingly challenged management to adopt a future-focused mode of thinking to strengthen the resilience of the organisation. They expressed the need for boards to accept the new reality of changing business models and the likelihood that uncertainty will continue for some time.

Managing risk

In the initial 'respond' phase, the chairs interviewed almost unanimously said keeping the business running was their immediate reaction to the crisis. Chairs reported a greater willingness for boards to relax normal risk constraints and accept a higher number of short-term risks. Entering the recovery period meant organisations were generally able to return to their core risk management principles.

COVID-19 forced leaders to explore how their strategies would perform under different, disruptive scenarios over shorter time frames. **Helping management to be clear on the choices that could be made confidently** in all scenarios became a key output of the board process.

Chris Rodgers, Strategy Partner, Deloitte New Zealand

Organisations that understood the importance of communicating and consulting with stakeholders were able to **maintain or improve their overall market position**, despite significant financial constraints. Future governance might evolve towards more impact-driven models in order to realise these benefits.

Deborah Lucas, Corporate Responsibility Lead, Deloitte New Zealand

Financing

In the recovery phase, organisations, management and boards faced a new reality. Changing business models, risks and opportunities meant financing and capital adequacy models needed to be reviewed through a new, uncertain lens.

A number of chairs spoke about the need to assess what adequate liquidity looked like under a variety of scenarios that would disrupt revenue streams. Many reported their organisations drew down against facility headroom and looked to equity providers to access sufficient cash reserves. Others focused on reviewing balance sheets and funding agreements, with some chairs recounting challenging discussions on whether to cancel previously announced shareholder dividends.

There was recognition among chairs that boards had maintained a strong long-term focus on financial sustainability while addressing immediate business needs. They utilised government assistance such as wage subsidies and loan extensions where needed and available.

Social responsibility and purpose

COVID-19 underscored the growing societal expectation on business to demonstrate social responsibility and the importance of putting purpose before – or at least alongside – profit. Many chairs reflected that society is looking to see businesses taking meaningful action and authentically making Environmental, Social and Corporate Governance commitments.

Social responsibility became a tension point for some industries and companies balancing business and regulatory obligations with supporting their people and communities. Some chairs noted boards and management teams were faced with navigating the realities of accessing financial assistance from the government and sustaining a commercial entity.

People were a priority for all boards and organisations with additional support being made available for both employees and customers. Such assistance included providing alternative accommodation and remunerating employees for not coming to work if unwell and being flexible with customers struggling to pay bills or supporting those unable to access critical products or services.

For some boards, their existing community focus was enhanced in the pandemic response with additional funding and product donations offered to those in need.

Executive remuneration

While remuneration and incentives for executives had been considered prior to COVID-19, the pandemic added weight to the discussion – particularly the short-term nature of incentives. Business disruption meant many executives didn't meet KPIs and therefore did not receive short-term incentive payments. This was despite significant efforts and commitment made to navigate the crisis. Given investment decisions are focused on the long-term, some chairs have suggested executive incentives should also be aligned with this same long-term perspective.

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