



Navigating the Impact of COVID-19

Few CEOs and executive teams will have been through a crisis of the magnitude we are currently facing. **Emma Carroll & David Hobbs** ask seasoned business leaders for their views on tackling it



With supply chains stretched to breaking point and workforces displaced, business leaders are under intense pressure. If they are to steer their organisations successfully through the storm, they must keep their people safe, quickly get to grips with the new needs of customers

and even consider cutting their own pay. Over the past three months, the coronavirus outbreak has rendered business strategies across the globe obsolete. We speak to market experts and Criticaleye Board Mentors to understand the steps they are taking to navigate the uncertain route ahead.



John Shelley

John Shelley is an Independent NED at Standard Chartered China, former Chief Risk Officer for RBS in Asia Pacific, and a Board Mentor at Criticaleye. Based in Hong Kong, John says that failing to show compassion and understanding will have a long-term impact.

As a leader, first and foremost you ask whether your staff are safe. Can you make them safe? How do you support them physically and mentally? And then, almost equally, customers. What are their immediate needs?

In this part of the world big banks have agreed to give payment holidays as part of their normal course of business. That includes people with mortgages, small businesses with loans and large businesses, like airlines. To give people breathing space, the initial rule of thumb has been three months. Behind the scenes we do sense checks on that and ask whether the business is really suffering because of the circumstances – there must be that sanity check, but we err on the side of the customer.

People have extremely long memories. I remember from SARS back in 2003, if you do just a little bit to help somebody in these circumstances then they will have a good feeling about you forever. If you are hardnosed or just don't listen then people won't just mistrust you forever, they'll also tell everyone they meet that they really, really, don't like you. There's a huge downside in not showing compassion and understanding.

That's the phase we are all in now, but you do have to start thinking about the longer term. The customer's business is suffering in the short term, but later there may have to be a genuine conversation about whether it can survive. Assistance packages from governments are starting to kick in and banks have a role in helping customers understand those. We shouldn't forget that

governments bailed the banks out not that long ago, so there should be an in-built sense of compassion.

As a leader in a crisis, there are three things you need to do: you need to be the hope giver, you need to deal with people's fears and you need to make decisions based on incomplete information.

Forgiveness is vital. Your people won't necessarily be their best selves and may be in fight or flight mode. You have to accept that people might not express themselves tidily or politely. They might have already made a few questionable decisions but moving past that and getting to the bigger points is key.

“People might not express themselves tidily or politely. They might have already made a few questionable decisions but moving past that... is key”



Bala Swaminathan

Bala Swaminathan is Chair of S Cube Capital and a Board Mentor at Criticleye. Based in Singapore, he says CEOs should demonstrate empathy with their people and customers by taking pay cuts.

The most important issues facing the majority of businesses are ensuring there is liquidity; making certain supply chains are functioning; and managing increasing costs while suffering sharp shortfalls in revenues. So, for many the priorities at this stage in the crisis are to stay safe and stay solvent. Postponing any discretionary expenses like office renovations or CapEx purchases will help.

However, laying off people is not a good idea. Instead, think about introducing pay cuts across the board for a

few months. In Singapore, the government is reimbursing up to 70 percent of payroll costs if businesses retain people.

For business leaders, it is crucial they are seen to lead from the front. Chief executives should be taking large salary cuts and zero bonuses until normalcy returns. It's about demonstrating empathy with your customers and employees.

At the same time, leaders need to ensure that their own health does not suffer – the stress impact of this crisis can potentially be quite high – so striking the right balance is even more important now.

Be optimistic but not complacent. Communication is crucial, so regular town halls and communicating on a weekly basis with employees will help, ideally remotely.



John Greenland

John Greenland, Partner at Jamieson Corporate Finance, says that while the outlook is tough PE businesses are less leveraged than in the financial crisis.

Over the last two weeks transactions in the private equity market have started to go slow or have been put on hold. Around 75 percent of the things we are working on have moved from being reasonably active to treading water while people wait to see what happens next.

Transactions take a reasonable amount of time from start to finish. So, when macro events are impacting business performance and strategic decisions are put on hold, it can take quite a long time to reset the model and then understand what the true impact has been on the short, medium and long term. Positive transactions don't get going again until after that. It wouldn't surprise me if there's a slow period through until the end of the summer.

Private equity uses a significant amount of debt to fund their investments and I suspect some of those businesses aren't set up to have a period where there isn't a significant amount of revenue.

However, in the restructures we looked at in 2008-2010,

there were businesses that had debt in the double digits, and while a few large businesses have stretched their debt facilities to 7 or 8x a lot have stuck to around 6x leverage (or less). On recent deals, debt has been a lower percentage of the capital structure overall. I think, going into this, businesses were less leveraged than in the financial crisis.

In addition to that, one big shift has been a reduction in the number of covenants on debt, which gives companies breathing space when it comes to volatility.

Clearly some industries and sectors are going to be really hard hit. Even with the support measures being announced daily by the government it's hard to predict the long term fall out. Retail was already struggling going into this – I imagine there will be some well known names that don't survive.

The key thing will be trying to get some level of certainty about the next steps. Communication has been improving from the government and people are starting to understand the magnitude of the situation. It would be good to understand what the government are looking for to trigger them to unwind, and how they might start to unwind the advice they have been giving.



Sandy Stash

Sandy Stash is a NED of businesses including Diversified Gas & Oil and EDF Energy Thermal Generation, as well as a Board Mentor at Criticleye. Chiefly based in the US, she explains that social distancing is critical but a challenge in industries like mining.

Initially we are all reacting by keeping people safe and following the rules – social distancing matters. With my current companies, we have critical infrastructure, such as oil production facilities where people live together and there it's a real challenge to keep people separated and the business operating.

Working offshore, you need to try to only have one person living in each quarters, whereas normally you may have one person living in a cabin in the day and another at night. Companies are having to adjust to keep the workforce safe.

Fundamentally, you need to acknowledge the special challenges of remote locations where you have a lot of people working and living in the same place. In industries such as mining, where the working-from-home option is

not possible, you need to manage that sensibly. For critical infrastructure, like a power plant, if you need to replace an entire crew, you need to understand how you could do that.

Even for businesses that are currently going well, there still needs to be a plan. You can't assume that you'll be unaffected by the disease. There needs to be a serious contingency plan for an orderly shutdown just in case. In the oil and gas industry, one person coming in from another country on a regular rotation could introduce the disease.

There also needs to be a plan for starting up again. We don't know when that will be but at some point we will turn a corner. It's a lot for businesses to do, as you are planning for now and planning for if things get worse, while trying to keep critical chains open, and you're trying to plan for an orderly restart within an uncertain timeframe.

The worst thing businesses could do is think they are exempt. Every organisation in the world needs a short, medium and longer-term plan.



Mike Tye

Mike Tye, Chair of Moto Hospitality Group, NED of The Restaurant Group and a Board Mentor at Criticleye, says that non-executives need to step up and keep stressed execs calm.

The biggest challenge for businesses now is to balance the needs of their different stakeholders – investors, team members, customers and the communities in which they operate. The vast majority of CEOs won't have faced anything like this; it's a whole new experience and Boards need to tell their executives to keep cool and take time to think and work the balance out.

It's a potentially classic situation of act in haste and repent at leisure. There's massive pressure between acting now and doing what's right for the longer term. That balance is so hard to find when you're operating in a context of fear.

All this puts stress on the company and that's where the

Board needs to step in. The majority of Board time should be spent on what's going to happen next, looking at what's within our control that we can do better and then what's beyond our control that we need to be cognisant of.

This sort of event will not have been on many, if any, risk registers. It's a big lesson, so give the execs space and encourage them to do what's right rather than worry about what the Board's thinking.

At times of crisis, good people can become great, but they need fantastic leadership. For business leaders, the most important thing is the calibre of those they employ and the degree of leadership they impart to those people. Following on from that comes culture.

Great culture will rise to the surface in a crisis, so the companies that are customer-centric and team-focused and who can collaborate with a common purpose will win out.



Matthew Blagg

Matthew Blagg, CEO of Criticaleye, cautions that excessive cutting in the short-term may harm long-term survival.

There are two phases to the current situation, Phase One is about crisis management. Leadership teams need to make sure their core service is in place; their infrastructure and technology are set up to support them; and that their cash position is managed to allow them to survive.

In this phase, it's important to make sure everyone remains aligned to the business purpose and that leaders are still thinking about the short, medium and long term. What you shouldn't do is needlessly cut – if you do, you'll survive this first phase but not what comes next.

Phase Two is where Asia is now. In some ways this is the hardest part, as how businesses emerge and adapt to the new normal is crucial. It will be about growth and that requires investment.

During a crisis, you need to communicate directly with all

your stakeholders in a calm and consistent way. Don't over communicate, but let people know what they'll get from you and when. You also need to be fair and balanced, which includes delivering on your commitments. The trust you build will be invaluable as you emerge.

CEOs need to make sure that everyone in their executive team is able to cope. If you see someone is struggling then you need to make sure the right support structures are in place, but if they continue to have problems then you need to replace them as soon as possible.

It is important to have access to other business leaders who can share their own lessons and help, as isolated executives may make decisions with very poor outcomes.

Leadership teams should always ask themselves: "What is the upside?" When we emerge, it will be an opportunity to draw on the positives from the experience, including a strengthened business culture, and you must make sure new behaviours stick.



Marcus Stuttard

Marcus Stuttard, Head of AIM and UK Primary Markets at the London Stock Exchange, says companies that communicate early and are honest may be more able to access future funding.

News travels quickly in the information age and we have seen volatility in global share prices as people react. There have also been some significant policy interventions, both in the UK and internationally. So, while we have seen falls across the markets, people also see buying opportunities.

During the [2008] financial crisis we saw that companies were able to tap the market very efficiently – investors were willing to take a long-term view and to continue to deploy capital. On AIM in 2009, IPO volumes were down, but we saw £5.6 billion raised by companies. £5 billion of that was by AIM companies raising further capital from their existing investors who continued to support them. We saw similar volumes in 2010. Companies that are better at communication and building trust with investors are the ones that are more able to go back to them and raise further capital if they need to.

Companies should continue communicating as normally as they can. Beyond the rules and regulations of the markets, it's all about building trust between companies and their investors. Everyone appreciates there are high levels of uncertainty and that some businesses are going to find it difficult to predict what the coming months have in store. So being clear, honest and timely is important.

Whether it is coronavirus or another macroeconomic event, what the whole of society – and businesses in particular – look for is certainty. At the London Stock Exchange, we will continue to provide as much clarity about standards of disclosure and resiliency as we can. It is also important that markets remain open to support companies who will continue to need access to capital, that markets are as orderly as possible and that there's a good flow of information about individual companies.

We are confident that we have a broad base of global institutions that have capital they are willing to deploy which will support businesses. Our expectation is that they will continue to do that through this crisis.



Alastair Lyons

Alastair Lyons, Chair of businesses including Glas Cymru (Welsh Water) and Harworth Group as well as a Board Mentor at Criticaleye, says that planning for beyond a year may be time wasted in such an uncertain environment.

Businesses need to plan in great detail for three months but should have a 12-month forward view. Looking beyond that period in the current circumstances is probably not constructive because in that time we will find out more about how we are getting out of this.

We will know the likelihood of a second [wave] once some of the lockdown measures are [relaxed] and we will understand how other countries around the world are coming out of this – or not. So, it will all need to be re-planned. The worst step for businesses right now would be to think this is going to be quick.

Plan for the worst and get ahead of the curve to anticipate how things might develop and what may be needed. Leaders

must be decisive: think through the options and then come to a clear course of action. Once that decision is made, good communication becomes essential.

Everyone is nervous and uncertain as to what the future holds and it's even more difficult to be in touch remotely, so you really need to be communicating well and frequently with your people. You should also be as open as possible in your communications about things that are known and can be talked about. For the unknowns, you must be honest with people.

Businesses are having to run really hard, so cut out whatever you can from the agenda and just focus on the big things that are going to make a difference getting through this. All businesses will have initiatives, plans and improvements they want to make, but now is not the time.

Clear the decks and focus on what is going to allow you to keep your business running as effectively as possible.



Samantha Barber

Samantha Barber, Non-executive Director of businesses including Scottish Water as well as a Criticaleye Board Mentor, says businesses need to be flexible and creative in reshaping how they operate.

The challenges facing utilities in general concern continuing to provide a service. We need to keep providing gas, electricity and ensure the lights stay on, especially for essential services like hospitals – it's an urgent requirement. Similarly, with water we must make sure that raw water can be treated, the supply of clean water into houses is maintained and sewage is treated. So, firstly the supply chain is crucial, making sure we're still able to get the equipment and chemicals needed; and secondly, it's about the workforce and having the teams able to carry out the tasks, such as working on power lines or windfarms – whatever is needed.

It's important to try to maintain business as usual while making adaptations to ensure we do that safely. There's a lot of space for innovation and creativity around how we do some things quite differently. We have an immediate urgency

in the next few weeks where contingency plans are put in place to counter business disruption, although I don't think anyone will have anticipated quite this level of disruption.

Beyond that companies need to look at how they can do things differently. I'm the Chair of an orchestra that's cancelling concerts. If we can't play for 12 months what are we going to do? We're already looking at other options creatively, and luckily we have a small orchestra whose members are very flexible and adaptable at what they are prepared to do. So, taking that analogy this is no space for fixed mindsets, this is space for openness, creativity and innovation.

I think it's worth businesses looking at Germany and Singapore where coronavirus cases have been fewer to understand the virus. Are there steps taken there that may not have been adopted by the UK government, but which could be taken by your organisation? Looking at what others are doing, especially if they're doing it well, is what business is really good at.