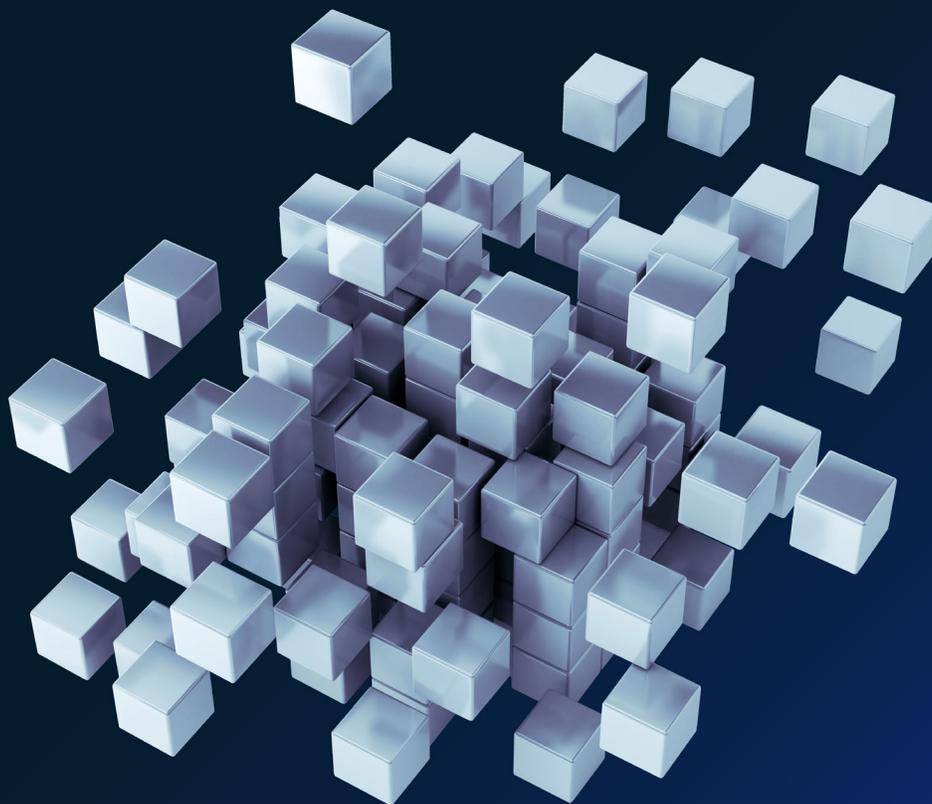


Risk Practice

Coronavirus: 15 emerging themes for boards and executive teams

Board directors and executives can pool their wisdom to help companies grapple with the challenge of a lifetime.

by Cindy Levy, Jean-Christophe Mieszala, Mihir Mysore, and Hamid Samandari



As Winston Churchill said, “Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.” We are seeing some faint signs of progress in the struggle to contain the pandemic. But the risk of resurgence is real, and if the virus does prove to be seasonal, the effect will probably be muted. It is likely never more important than now for boards of directors and executive management teams to tackle the right questions and jointly guide their organizations toward the next normal.¹

Recently, we spoke with a group of leading non-executive chairs and directors at companies around the world who serve on the McKinsey Resilience Advisory Council, a group of external advisers that acts as a sounding board and inspiration for our latest thinking on risk and resilience. They generously shared the personal insights and experiences gained from their organizations’ efforts to manage through the crisis and resume work. The 15 themes that emerged offer a guide to boards and executive teams everywhere. Together, they can debate these issues and set an effective context for the difficult decisions now coming up as companies plan their return to full activity.

Managing through the crisis

1. ***Boards must strike the right balance between hope for the future and the realism that organizations need to hear.*** There are many prognostications on what comes after COVID-19. Many will be helpful. Some will be right. Boards and managers may have some hopes and dreams of their own. Creating value and finding pockets of growth are possible. It is important to have these aspirations, because they form the core of an inner optimism and confidence that organizations need. However, leaders should not conflate aspirations with a prescience about the future.
2. ***The unknown portion of the crisis may be beyond anything we’ve seen in our professional***

lives. Boards and managers feel like they might be grappling with only 5 percent of the issues, while the vast majority are still lurking, unknown. Executives are incredibly busy, fighting fires in cash management and other areas. But boards need to add to their burden and ask them to prepare for a “next normal”² strategy discussion. Managers need to do their best to find out what these issues are, and then work with boards to ensure that the organization can navigate them. The point isn’t to have a better answer. The point is to build the organizational capability to learn quickly why your answer is wrong, and pivot faster than your peers do. Resilience comes through speed. This may be a new capability³ that very few organizations have now, and they will likely need to spend real time building it.

3. ***Beware of a gulf between executives and the rank and file.*** Top managers are easily adapting to working from home and to flexible, ill-defined processes and ways of working, and they see it as being very effective and also the wave of the future. Many people in the trenches think it is the worst thing to happen to them (even those that are used to working remotely). Remote working is raising the divide between elites and the common man and woman. There is a real risk of serious tension in the social fabric of organizations and in local and national communities.
4. ***Don’t overlook the risks faced by self-employed professionals, informal workers, and small businesses.*** These groups are often not receiving sufficient support. But their role in the economy is vital, and they may be noticed only later, when it is too late.
5. ***Certain industries and sectors are truly struggling and require support.*** Several disrupted industries and many organizations in higher education, the arts, and sports are severely struggling and require support to safeguard their survival.

¹ Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann, “Boards in the time of coronavirus,” April 2020, McKinsey.com.

² Yuval Atsmon, Chris Bradley, Martin Hirt, Mihir Mysore, Nicholas Northcote, Sven Smit, and Robert Uhlener, “Getting ahead of the next stage of the coronavirus crisis,” April 2020, McKinsey.com.

³ Mihir Mysore, Bob Sternfels, and Matt Wilson, “Return: A new muscle, not just a plan,” May 2020, McKinsey.com.

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Return to work—the path ahead

6. *Mid- to long-term implications and scenarios vary considerably.* It's important to differentiate between industries and regions. Some industries may never come back to pre-COVID-19 levels.
7. *What went wrong?* Boards and executives, but also academics, need to debate the question. Where should we have been focusing? Take three examples. Why did companies ignore the issue of inadequate resilience in their supply chain? The risks of single sourcing were well known and transparent. Also, why did we move headlong toward greater specialization in the workforce, when we knew that no single skill was permanently valuable? Finally, why did we refuse to evolve our business models, although we knew that technology and shifts in societal preferences were forcing us down a treadmill of ever decreasing value-creation potential?
8. *How can we prevent a backlash to globalization?* The tendency toward nationalism was already strong and is growing during the crisis. The ramifications will be challenging. For example, in pharmaceutical development, residents of the country where a pharma company has its headquarters may expect to get the drug first. Global companies, despite their experience, may find it harder to address and engage directly with diverse, volatile, and potentially conflicting stakeholders. In such times, societies may need someone to mediate between the private sector and some of these stakeholders.
9. *Companies need help with government relations.* Strong government interventions are occurring on the back of a serious loss of confidence in free-market mechanisms. There is little question that different governments will land on different answers to the debate around how free markets really ought to be structured. The corporate community has been thrust into a new relationship with government, and it is struggling. The government landscape is fragmented, with highly varied approaches and competencies. Companies are looking for a playbook; no one has an infrastructure to manage this complexity.
10. *Where will the equity come from, and with what strings attached?* Governments are propping up various sectors with new capital. What will they receive in return? Will they distort markets? How can companies manage this process carefully to emerge from the crisis with a stronger balance sheet? Further, much more capital is likely needed; presumably some of it will come from the private sector. Will capital markets be effective and trusted in such times? Who governs this overall process, and what role should the government play? Is it the time for more state funds?
11. *The balance between profits and cash flow is tricky, and essential to get right.* Many companies are caught right now and are sacrificing their bottom line in order to pay for their financing. That's not sustainable; companies will need guidance on how to balance the two.⁴

⁴ Sarah Keohane Williamson and Tim Koller, "Navigating COVID-19: Advice from long-term investors," April 2020, McKinsey.com.

12. It may be time for responsible acquisitions, including to help restructure certain industries. Many “resilients”⁵ have “kept their powder dry,” and are now ready to acquire. But they need to be sensitive and allow sellers a good path to exit. We need guidelines for responsible acquisitions.

This is not to say that there are no efficiencies to be sought or found, but more that the trade-off between efficiency and resiliency needs to be defined far more clearly than it has been in recent years.

13. Cyberrisk is growing. Remote working increases the “attack surface” for criminals and state actors. Both are more active. Chief information officers and chief information security officers are grappling with the over-whelming demand for work-from-home technology and the need for stringent cybersecurity.⁶

It is the board’s responsibility to coach and advise its management team, especially when the terrain is trickier than usual. However, boards should not mistake the need for vigorous debate with the need for consensus. More than ever, a bias to action is essential, which will frequently mean getting comfortable with disagreement. Apart from all the operational focus needed for the return to work, it is even more important that boards and management teams take a step back to reflect upon these 15 core themes. In summary:

14. Innovation may never have been so important. Innovation has always been essential to solving big problems. The world is looking not just for new things but also for new ways of doing things (especially on the people side, where we need new behaviors, long-term rather than short-term), capabilities, and work ethics.

1. Take the time to recognize how the people who (directly or indirectly) depend on the company feel.
2. Have aspirations about the post-COVID world, but build the resilience to make them a reality.
3. Strengthen your capability to engage and work with regulators and the government.
4. Watch out for non-COVID risks, and make sure to carve out time to dedicate to familiar risks that have never gone away.
5. Find out what went wrong, and answer the uncomfortable truths that investigation uncovers.

15. The path ahead will surely have ups and downs and will require resilience. As lockdowns are relaxed, and segments of the economy reopen, viral resurgences and unforeseen events will keep growth from being a straight line going up. It will likely be a lengthy process of preserving “lives and livelihoods”⁷ over several months, if not years. The reality is that many or even most business leaders made choices over the past decades that traded resilience for a perceived increase in shareholder value. Now may be the moment to consider that the era of chipping away at organizational resilience in the name of greater efficiency may have reached its limits.

⁵ Martin Hirt, Kevin Laczkowski, and Mihir Mysore, “Bubbles pop, downturns stop,” May 2019, McKinsey.com.

⁶ Jim Boehm, James Kaplan, and Nathan Sportsman, “Cybersecurity’s dual mission during the coronavirus crisis,” March 2020, McKinsey.com.

⁷ Kevin Buehler, Arvind Govindarajan, Ezra Greenberg, Martin Hirt, Susan Lund, and Sven Smit, “Safeguarding our lives and our livelihoods: The imperative of our time,” March 2020, McKinsey.com.

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The authors wish to thank members of the McKinsey Resilience Advisory Council, Kevin Buehler, Nina Spielmann, and Matt Wilson for their contributions to this article.