

GOVERNING

WE NOW LIVE WITH COVID-19. FEWER business leaders are making the mistake of talking about “post-Covid” or “when this is over.” The better of them have factored in COVID-19 related constraints to their medium-term plans and are even thinking about how the world may change in the long-term. They are building capacity to take advantage of an early recovery within months, yet they are modeling and encouraging grit for current and indeed harder conditions to last much longer. In the past, when health emergencies—say the Spanish Flu pandemic of a century ago—subsided, there was a greater return to economic normality than had been expected during the crisis. Extreme events often heighten or even distort our

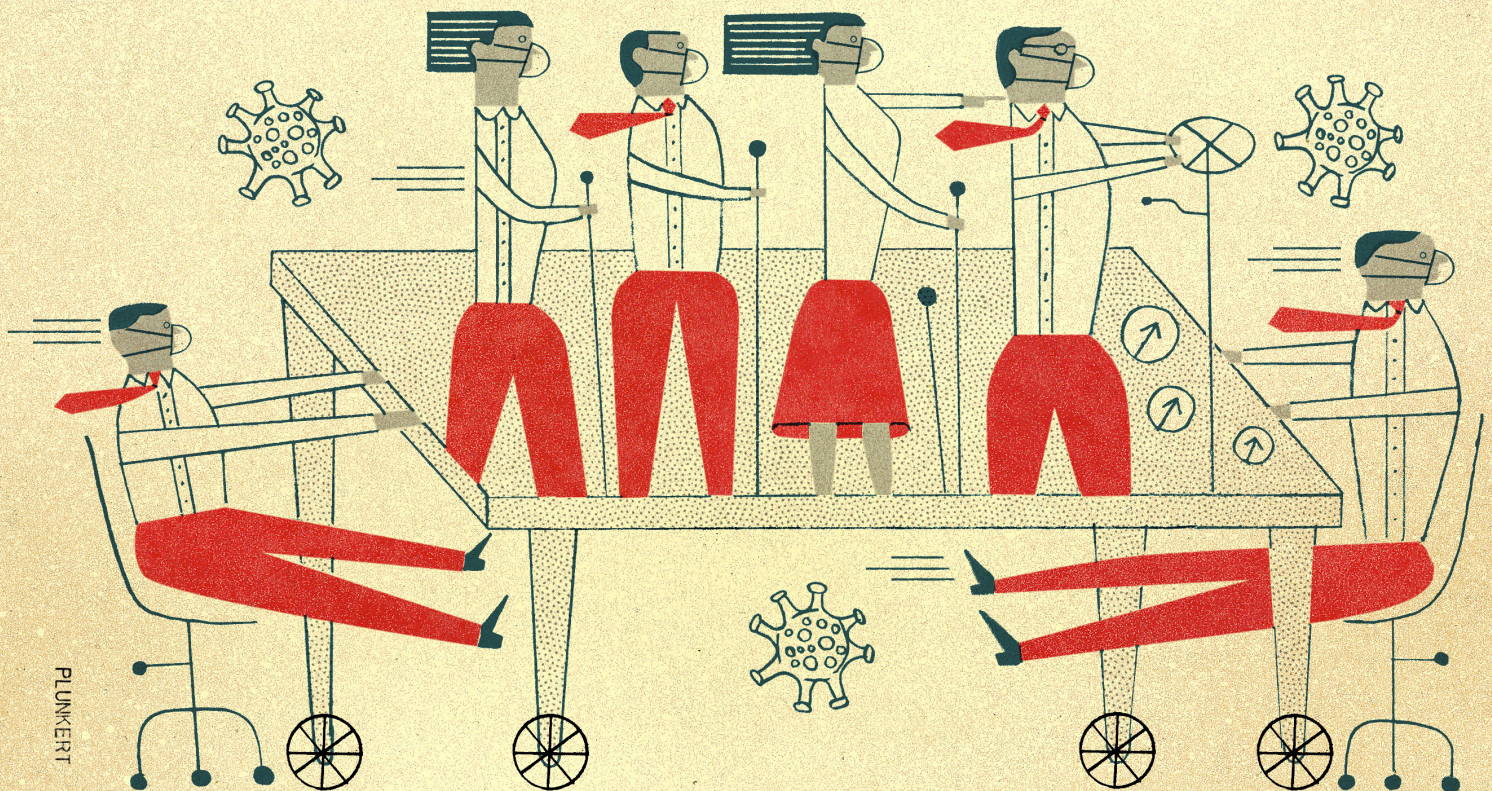
for Resilience

COVID-19 has raised the stakes for boards, argues Brunswick's **PADDY MCGUINNESS**, former UK Deputy National Security Adviser.

perception of wider risks. That old journalistic cliché “one thing is certain, nothing will be the same again” is rarely true.

But the pandemic has created the expectation that businesses will be resilient—that they will be able to respond to an event and recover to the state prior to the event, incorporating the lessons learned into business practice. Many business leaders feel they have not done too badly responding to a once-in-a-hundred-years event. Business Continuity Plans (BCPs),

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which were understandably sketchy for pandemics, were pulled out of second-line risk management and owned and improved in real-time by executive committees. The transition to remote working and, at least in Asia and some of Europe, the gradual return to offices again, has been managed. Services and even vital production have been maintained. Leaders have absorbed the personal and collective strain of this. Good reason then for some satisfaction as they delegate certain COVID-19 responses and focus on the economic tsunami that follows the pandemic.

The public seems to largely agree with business leaders' assessments. While many national and scientific leaders find themselves beset by "blamestorming," corporate executives have been given more slack. They weren't expected to have foreseen a pandemic. Their sometimes scabbling responses are understood. However, behind this lucky pass lurks an expectation that businesses will now be more prepared for crises and foreseeable risks. Resilience cannot be relegated to BCPs and traditional risk-management structures. It is categorically a board issue—regulators, lawyers, politicians and the public say so. The reputations of individual board members and the collective are at stake. Think how fast leaders have been expected to respond to the issues raised by the Black Lives Matter movement. Alacrity will be required.

The speed and scale of decisions in response to the pandemic leaves board committees playing catch up to assure themselves that risks have been managed. The move to working from home has been rapid, so too the digitization of the business. Some see these as new, streamlined ways of working, yet the negative consequences are not yet fully apparent. Working from home, for instance, is attractive to some employees as well as chief financial officers, who may relish the chance to reduce fixed costs. Concerns about the impact on the coherence of the business's culture, its productivity and innovation, the security of data held at home, hardships for those in difficult home conditions, and, indeed, the needs of the younger demographic who seem to favor a return to the office, need to be given due consideration. It may be a case of "decide in haste, repent at leisure."

Boards also need assurance that the business has regained its balance and can manage parallel or interrelated crises. In recent weeks we have been helping several clients respond to major cyber events unrelated to the COVID-19 outbreak. They have probably needed more external support than otherwise because their leadership capacity was inevitably denuded by pandemic response. And they have

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benefitted from us already knowing each other and having experience of how to work together in crisis.

After the Great Financial Crash there was a heavy focus on balance-sheet resilience and having the requisite finance skills on boards. Business leaders are now beset by advice on the heightened obligation to be resilient in much a broader sense of the word. Regulators, lawyers and risk consultants are sharing checklists of factors for executive committees to take into account when managing risks and for boards to oversee. The challenge here is defining what changes your specific business needs and how to actually bring those about. Shareholders will be expecting a judicious move away from "just in time" systems to ones that can endure foreseeable risks.

This isn't just about potential legal liability or reputational risk. This is about setting your business culture for success. Undermanage risks and the business is wide open to damage from foreseeable shocks with all the loss of confidence and capability that follows. Overmanage and the business loses its competitive edge just when there is opportunity in the recovery.

In order to track broader resilience, boards and their committees will need access to a wider set of skills and insight. Board membership emerges as an obvious area of focus. Yet each board will take more time and belonging to too many—"over boarding"—may well be unacceptable. Risk methodology and information flows will also have to be reviewed, alongside how to strengthen board members' awareness and skills. Before the pandemic, chairs and CEOs were already wrestling with this for their difficult-to-price risks, such as data, technology risks and cyber. Individual experts on boards created siloed responsibility for what should have been a shared risk. A focus on process and method often led to a focus on the management, rather than genuine oversight of, risks. External advice didn't always help (as we have learned from the plethora of competing advice around COVID-19).

No single intervention will meet the new standard for resilience. Nor will simple prescription. A broader and more articulated approach is required if governance is to maintain stakeholder confidence and corporate reputation. ♦

PADDY MCGUINNESS is a Brunswick Senior Advisor based in London but acting globally. Formerly the UK's Deputy National Security Adviser for Intelligence, Security and Resilience, he supported two successive Prime Ministers on the appropriate response to all hazards and threats affecting the UK Homeland including national risk assessment and resilience, crisis response, cyber security, counter-terrorism, action by hostile states, and, indeed, public health risks such as pandemics.