



The heart of resilient leadership

Responding to COVID-19

Combating COVID-19 with resilience

For a broader set of Deloitte insights into responding to COVID-19, please visit our dedicated **COVID-19 website**.

Connect with our COVID-19 client PMO for help at **covidclientpmo@deloitte.com**.

Contents

Leadership in the crucible of crisis	2
Design from the heart ... and the head	4
Put the mission first	6
Aim for speed over elegance	8
Own the narrative	9
Embrace the long view	10
A test of resilient leadership	12
Appendix: Action guide—putting the mission <i>first</i>	13
Endnotes	18

Leadership in the crucible of crisis

THE RAPID GLOBAL spread of COVID-19 has quickly eclipsed other recent epidemics in both size and scope.¹ In addition to the deadly human toll and the disruption to millions of people's lives, the economic damage is already significant and far-reaching.

In the face of certain challenges and a still-uncertain set of risks, business leaders are rightly concerned about how their companies will be affected and what they have to do next. In the heat of the moment, there are a number of lessons from history that can be applied now. We have pooled the insights of Deloitte leaders in affected areas around the world to provide practical insights for chief executives and their leadership teams in taking appropriate action.

We recognize that companies are in different phases of dealing with the outbreak, and therefore the impacts vary by geography and sector. But regardless of the extent of the virus's impact on an organization, we believe there are five fundamental qualities of *resilient leadership* that distinguish successful CEOs as they guide their enterprises through the COVID-19 crisis:

1. Design from the heart ... and the head. In crisis, the hardest things can be the softest things. Resilient leaders are genuinely, sincerely empathetic, walking compassionately in the shoes of employees, customers, and their broader ecosystems. Yet resilient leaders must simultaneously take a hard, rational line to protect financial performance from the

invariable softness that accompanies such disruptions.

2. Put the mission first. Resilient leaders are skilled at triage, able to stabilize their organizations to meet the crisis at hand while finding opportunities amid difficult constraints.

3. Aim for speed over elegance. Resilient leaders take decisive action—with courage—based on imperfect information, knowing that expediency is essential.

4. Own the narrative. Resilient leaders seize the narrative at the outset, being transparent about current realities—including what they don't know—while also painting a compelling picture of the future that inspires others to persevere.

5. Embrace the long view. Resilient leaders stay focused on the horizon, anticipating the new business models that are likely to emerge and sparking the innovations that will define tomorrow.

We believe that a typical crisis plays out over three time frames: *respond*, in which a company deals with the present situation and manages continuity; *recover*, during which a company learns and emerges stronger; and *thrive*, where the company prepares for and shapes the “next normal.” CEOs have the substantial and added responsibility to nimbly consider all three time frames concurrently and allocate resources accordingly.

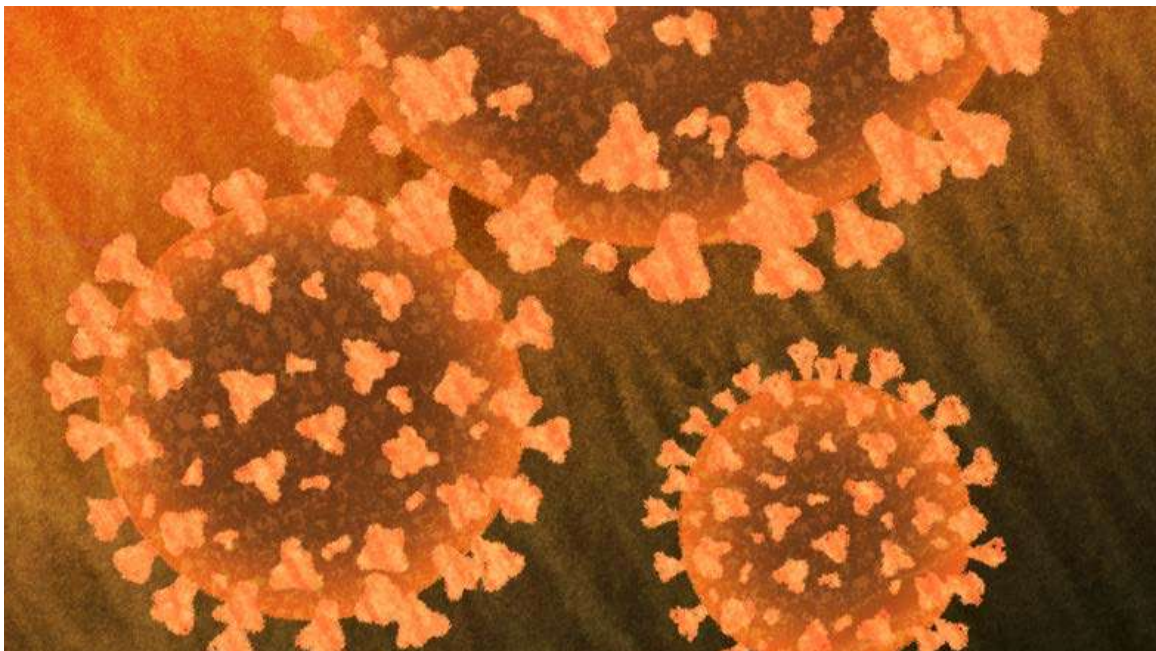
Within the framework of these broad imperatives, resilient leaders can take specific tactical steps to elevate these qualities during the current crisis, blunting its impact and helping their organizations emerge stronger. With the right approach, this

crisis can become an opportunity to move forward and create even more value and positive societal impact, rather than just bounce back to the status quo.

SPOTTING THE “BLACK SWAN”

Black swan events are unforeseen or unpredictable crises that often have extreme consequences. The outbreak of COVID-19 and its westward march across the globe has introduced a new kind of uncertainty:

- Recessions since World War II have usually been caused by either economic policy mistakes, oil shocks, or financial bubbles. The rapid economic deterioration of economies and stock markets amid the COVID-19 threat represents a new category: a global societal shock. We surveyed more than 4,200 US executives on February 26, 2020, asking them which of the three typical categories—or a fourth “something else” category—would trigger the next economic downturn, and 35 percent presciently selected “something else.”
- Whereas the 2008 global financial crisis was stoked by the shutoff of the supply of capital, disruptions on both the supply side and the demand side are the cause this time around. In China, for example, mass shutdowns of factories evaporated the supply of products such as auto parts, electronic components and apparel. Meanwhile, the mass quarantining of the population cut off consumption, most acutely in the travel, hospitality, restaurant, and retail sectors.²



Design from the heart ... and the head

AN ESSENTIAL FOCUS in a crisis is to recognize the impact the uncertainty is having on the people that drive the organization. At such times, emotional intelligence is critical. In everything they do during a crisis, resilient leaders express empathy and compassion for the human side of the upheaval—for example, acknowledging how radically their employees' personal priorities have shifted away from work to being concerned about family health, accommodating extended school closures, and absorbing the human angst of life-threatening uncertainty. Resilient leaders also encourage their people to adopt a calm and methodical approach to whatever happens next.

In everything they do during a crisis, resilient leaders express empathy and compassion for the human side of the upheaval.

The first priority should be safeguarding workers, ensuring their immediate health and safety, followed by their economic well-being. A survey of human capital policies and practices in China at the onset of the COVID-19 outbreak, conducted by Deloitte China in January 2020, revealed the following steps companies and not-for-profit organizations were considering in response:

- Ninety percent said that it was an urgent requirement to provide their employees with remote and flexible work options.

- Companies in industries facing the biggest constraints on providing flexible and remote working options—such as energy, resources, and industrials—were focusing on providing stronger physical protection in the form of cleaner and safer work environments and personal protective equipment.
- More than half of government and public service entities were focusing on addressing employees' psychological stress.³

Designing for the customer's heart starts with understanding how that heart may have changed dramatically from what you perceived before. Consider that in crisis, customers often revert down Maslow's Hierarchy of Needs to basic desires

such as safety, security, and health. How does the nature and tone of your customer communications and the sensitivity of your customer experience need to shift in the midst of the COVID-19 crisis? Customers relish the same kindness and grace toward them that you show your workers—they are struggling through the crisis, too, and expect empathy. Simple things can be big

things. UberEats is asking customers if they want food left at the door rather than passed by hand. Many airlines have emailed customers to describe their enhanced plane decontamination efforts. Some restaurants have encouraged their wait staff to visibly use hand sanitizer to assuage patron concerns.⁴

Yet for the sake of those same employees and customers—as well as creditors and investors—resilient leaders must stay vigilantly focused on protecting financial performance during and

through the crisis ... and making hard, fact-based decisions. The adage “cash is king” is most real in the midst of an existential event. There are several critical steps in protecting performance:

1. **Centralizing decision-making** in fewer nodes for consistency, speed, and especially decisiveness—especially since uncertainty can paralyze some decision-makers.
2. **Cataloging the sources of cash the company has available**, including unused credit lines (committed and uncommitted), revolving credit facilities, and related borrowing restrictions; new sources of credit, such as fixed credit facilities to refinance existing revolvers; excess working capital (e.g., via inventory reductions, extended payment terms); equity infusions; etc.
3. **Rapidly articulating economic scenarios** across all served markets, generally scaling scenarios from mild to moderate to severe.
4. **Modeling the projected financial impact** of the scenarios on profitability and especially liquidity. This includes assessing the probability of violating debt covenants and terms, and determining when available cash sources should be drawn.
5. **Defining the non-negotiables:** Which products, services, customer segments, business lines, employee segments, and so on are the most critical to ongoing and future cash flow and should be preserved, although even those non-negotiables may be impacted if scenarios tend to the more severe.
6. **Identifying the levers leadership has available** (within the boundaries of the non-negotiables) to impact financial performance, such as discretionary expense reduction, hiring freezes, or temporary plant closures.
7. **Determining the actions to take now**, and agreeing in advance on the hierarchy of levers to be pulled as the severity of scenarios unfolds.

Companies that have developed a downturn planning playbook have a head start, since many of

the scenarios, projections, non-negotiables, and levers already have been articulated and may just need to be adjusted for present circumstances.

Yet amid the crisis, a company’s purpose should remain steadfast: It’s never negotiable. Purpose is where the head and the heart unite. While many organizations today have articulated a purpose beyond profit,⁵ purpose risks getting ignored in day-to-day decisions. In a recent survey, 79 percent of business leaders believe that an organization’s purpose is central to business success, yet 68 percent said that purpose is not used as a guidepost in leadership decision-making processes within their organization.⁶

Making decisions that tie back to the organization’s purpose is particularly important during a crisis, when companies are under increased pressure and stakeholders are paying close attention to every move. We know from research on purpose-driven organizations that they tend to thrive during challenging environments:

- **Purpose cultivates engaged employees.** When companies are centered on an authentic purpose, employees feel that their work has meaning. Research shows that employees who feel a greater sense of connection are far more likely to ride out volatility and be there to help companies recover and grow when stability returns.⁷
- **Purpose attracts loyal customers who will stick with you in a downturn.** Eight in 10 consumers say they are more loyal to purpose-driven brands, which can help sustain customer relationships in a downturn and beyond.⁸
- **Purpose helps companies transform in the right way.** Companies that are guided by their purpose when they face hard decisions have a sharper sense for how they should evolve, and their transformation is more cohesive as a result.⁹ When purpose is put first, profits generally follow; when profits are first, the results can be more elusive.

Put the mission first

 ORGANIZATIONS IN THE middle of a crisis are faced with a flurry of urgent issues across what seems like innumerable fronts. Resilient leaders zero in on the most pressing of these, establishing priority areas that can quickly cascade.

Based on our analysis of the leading practices of multinational companies in business continuity planning, especially related to major emergency management of infectious atypical pneumonia, H1N1 influenza, Ebola hemorrhagic fever, and other major infectious diseases,¹⁰ we have identified a number of key actions resilient leaders can take that can be grouped into the following categories:

- Launch and sustain a crisis **command center**
- Support **talent and strategy**
- Maintain **business continuity and financing**
- Shore up the **supply chain**
- Stay **engaged with customers**
- Strengthen **digital capabilities**
- Engage with your **business ecosystem**

See the appendix, **Action guide—putting the mission first**, at the end of this article for detailed activities and priorities for each.

The recommendations in the action guide are further informed by Deloitte’s on-the-ground

experience serving clients and supporting Deloitte professionals in the China market (see sidebar, “Key learnings from leading companies in the Chinese market”).

Apple provides an integrated case study. Its decision to close retail stores in affected areas¹¹ demonstrates a number of these principles:

- Empathizing with the needs and concerns of its employees, including continuing to pay hourly workers as though operations followed a normal schedule and amending its leave policy for COVID-related health issues
- Reducing further shocks to an already depleted supply chain
- Staying connected to—and overtly demonstrating concern for—its customers and local communities
- Leveraging its at-scale digital presence by keeping its online store open and running
- Continuing to engage its business ecosystem via new channels, shifting the annual Worldwide Developers Conference in June to a digital-only gathering¹²

Finally, Apple’s bold decision-making demonstrates the courage inherent in *Aim for speed over elegance*, the next quality we discuss.

KEY LEARNINGS FROM LEADING COMPANIES IN THE CHINESE MARKET

- **Command center.** Leading companies in China established emergency response teams right away in order to assess the risks and formulate response strategies after conducting robust scenario planning, which significantly improved epidemic response mechanism and toolkits.
- **Talent and strategy.** After the initial outbreak, companies began implementing flexible work arrangements for middle- and back-office staff in order to minimize onsite work while meeting basic operational requirements. With remote work capabilities being stress-tested, overall opportunities for improvement were identified and addressed. A digital employee health declaration system was also launched by some companies in order to track employee well-being and to comply with administrative reporting requirements.
- **Business continuity and financing.** Companies immediately began to update/develop business continuity plans to understand contractual obligations, evaluate financial impacts and liquidity requirements, formulate debt restructuring plans, and optimize assets to help restore financial viability. Another core focus was to understand financial impacts across the entire value chain.
- **Supply chain.** Companies in China accelerated investment in digital trading solutions to combat supply chain interruptions, overcome logistics and labor shortages, and get better visibility into local access limitations in order to ensure product supply for the domestic market. Operational agility and data quality were critical in supply chain scenario planning.
- **Customer engagement.** Companies quickly moved to maintain open and ongoing lines of communication with their customers on the impacts of COVID-19 to the business and the emergency actions implemented. This approach of working in partnership has built confidence amid the uncertainty.
- **Digital capabilities.** Companies are revisiting the current e-commerce landscape and developing digital road maps for the short, medium, and long term. Companies realized that digital capabilities needed to be implemented across the entire organization in order to embed resilience. Some leading companies in the service industry promoted “no touch” experiences in order to shift away from brick-and-mortar presence.



Aim for speed over elegance

PERFECT IS THE enemy of good, especially during crises when prompt action is required.

Most companies do not have the infrastructure to deliver perfect information or data, in real time, on operations that could be affected during an epidemic. There will be many “known unknowns” in the days and weeks ahead. Are you ready to accept that you’ll need to act with

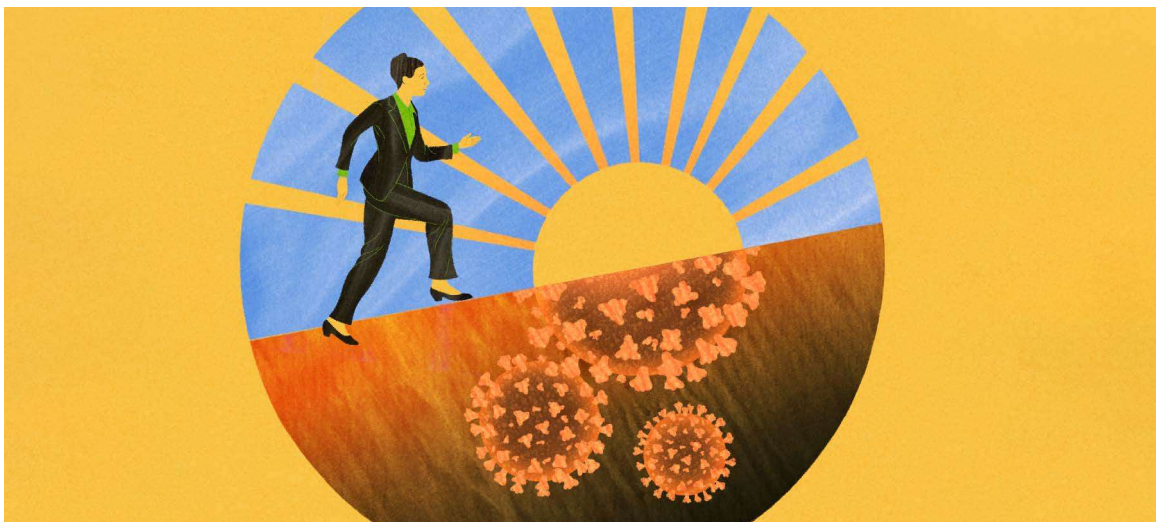
Perfect is the enemy of good, especially during crises when prompt action is required.

imperfect information? Collect as much proxy data as you can to inform your decisions so you’re not flying blind. When the crisis is over, you will have the opportunity to conduct a thorough review to see how to improve information quality in future crises—but during this one, you will likely have to set aside that kind of analysis.

As leaders confront situations that were never anticipated, this is also a time to encourage more initiative and decision rights at all levels of the organization, trusting that the teams and individuals who are deeply embedded in a specific context may be in the best position to come up with creative approaches to addressing unanticipated needs. Make the objective clear, but allow more

flexible local autonomy. To achieve the overall objective of reducing disease transmission risk in its stores, for instance, one coffee shop chain gave store leadership the flexibility to reconfigure tables to maintain social distancing.¹³ The

key, of course, is to ensure that all workers are clear on the objectives that matter and the guardrails that cannot be crossed. This approach may have value beyond the current crisis as organizations learn to conduct business in more and more uncertain times.



Own the narrative

AS WE HAVE seen, there is a fine balance between communicating in advance of having all of the facts and being late to comment. We have seen leading companies adopt a policy of shorter, more frequent communications based on what they do know and filling in details later. In the absence of a narrative from you, your teams and stakeholders may start to fill the void with misinformation and assumptions. Setting a regular cadence with a clear voice is critical. Incomplete or conflicting communications can slow the organization's response rather than providing better guidance.

In a time of crisis, trust is paramount. This simple formula emphasizes the key elements of trust for individuals and for organizations:

Trust = Transparency + Relationship + Experience

Trust starts with transparency: telling what you know and admitting what you don't. Trust is also a function of relationships: some level of "knowing" each other among you and your employees, your customers, and your ecosystem. And lastly, it also depends on experience: Do you reliably do what you say? In times of growing uncertainty, trust is increasingly built by demonstrating an ability to address unanticipated situations and a steady commitment to address the needs of all stakeholders in the best way possible.

It's also important to recognize and address the emotions of all stakeholders. This is not just about charts and numbers. Narratives can be powerful ways to acknowledge the fears that naturally surface in times of crisis, while at the same time framing the opportunity that can be achieved if

This is not just about charts and numbers. Narratives can be powerful ways to acknowledge the fears that naturally surface in times of crisis, while at the same time framing the opportunity that can be achieved if stakeholders come together and commit to overcoming the challenges that stand in the way.

stakeholders come together and commit to overcoming the challenges that stand in the way.

In the midst of crisis, Marshall McLuhan's famous observation that "the medium is the message" rings even more true. Many psychologists assert that the majority of communication is nonverbal. Emails, texts, and tweets miss the voice intonation, eye contact, and body language essential to trust-building communications. Encourage the use of video—especially to connect emotionally with your teams—instead of emails and other forms of communication. Just as you may feel overwhelmed by your inbox, so do your employees.

Embrace the long view

ANY PERIOD OF volatility can create opportunities that businesses can leverage if they are prepared. In the case of the COVID-19 outbreak, organizations that take a more assertive and longer-term approach can spark innovations that will define the “next normal.”

A *Harvard Business Review* assessment of corporate performance during the past three recessions found that, of the 4,700 firms studied, those that cut costs fastest and deepest had the lowest probability of outperforming competitors after the economy recovered.¹⁴ In other words, the group most likely to emerge from the recession as winners were those that struck the right balance between short- and long-term strategies by investing comprehensively in the future while selectively reducing costs to survive the recession.¹⁵ While the importance of this balance may appear obvious when the economy is strong, amid the pressures of a downturn, companies are particularly susceptible to a short-term mindset.

Anticipate structural changes and their lasting effects

COVID-19 is likely to accelerate fundamental and structural changes that were inevitable in any case—but are now likely to occur *far* faster than they would otherwise. Consider that the “virtualization” of work—undertaken from home or elsewhere, with remote collaboration and reduced travel for physical colocation—has been evolving steadily. Today, all around the world, businesses—and their talent—are learning to communicate, collaborate, and coordinate on virtual platforms, and understanding the increased efficacy and

efficiency such modalities of work can provide. Virtual work and collaboration tools are likely to create a booming new market space.

These structural changes also may require you to alter your strategy and planning. For instance, if you shift your staffing model to allow more telecommuting or remote work, how could that affect your real estate portfolio? Are there cost savings you can achieve by shrinking your organization’s physical footprint? What sort of new liabilities or challenges might develop if you adopt a decentralized work model? Will you need stronger cybersecurity protocols? What changes will you need to make to management training and communication policies to run a more distributed workforce? What upgrades are required for video conferencing and network availability?

The necessity of operating differently gives businesses the opportunity to understand what they *can* do. One company, for example, tested the ability of its finance staff to perform their monthly close while working from home to determine if the company could meet its quarterly financial reporting requirements if conditions persisted.¹⁶ Once you discover that you can do things differently, you may want to consider whether you should continue doing so.

Become a market shaper

Shaping strategies can become a significant source of new value creation emerging from unanticipated crises.¹⁷ The market shapers—those that shape the future of their industry rather than adapt to it—will emerge stronger. Companies emerging from this crisis and shifting into the “thrive” time frame will

take part in this reinvention, either by identifying and solving for new opportunities, aligning themselves with the future-shapers of their industry, or actually becoming the nexus of the next ecosystem while their competitors focus on the crisis.

Consider the promise of additive manufacturing. Although 3D printing has been growing, existing global supply chains and the wage arbitrage opportunities they provide have provided powerful economic advantages. The status quo has already been tested by growing geopolitical tensions and protectionism, and growing concern about carbon footprints. Now add the impacts of COVID-19, and it is easy to anticipate huge investments in new additive manufacturing technologies that bring production back much closer to consumption—creating entirely new markets to be shaped.

How will emerging trends, structural changes, and new markets redefine how your company and industry will be organized tomorrow?

Build future business models

Likewise, structural market changes and newly shaped markets prompt new business models. Imagine the creation of public-private partnerships to provide redundant infrastructure in a particular geography—an initiative at least one government agency already has sponsored in anticipation of circumstances such as these.¹⁸ How will emerging trends, structural changes, and new markets redefine how your company and industry will be organized tomorrow?

For example, many have long realized that education was ripe for significant changes enabled by digital technologies. With over 290 million students out of school globally due to COVID-19,

according to the United Nations,¹⁹ the demand for online offerings, curricula, and platforms will likely accelerate. Yet some universities and faculty are just beginning to improvise remote offerings.²⁰ Designing around the massive COVID-19 constraint demonstrates the real promise of potentially revolutionary changes in how we structure, locate, and operate our approaches to learning—which are likely to lead to dynamic new market-making opportunities in this area as well.

As another example, consider the growth in adoption of AI and robotics, which already are playing a key role in detecting and treating COVID-

19. AI-equipped tools are scanning social media to analyze virus progression in real time, recognizing viral pneumonia in chest CT scans 45 times faster than humans with 96 percent accuracy, and conducting molecular synthesis and validation in days rather than months or years.²¹ Meanwhile, robots are disinfecting quarantined patient rooms to reduce possible transmission.²² AI also could accelerate drug discovery, preclinical drug development, and phase 1 clinical trials in which safety and toxicity could be tested with DNA-on-a-chip. Imagine how future health care models might change if the typical decade-long pharmaceutical research and development cycle could be slashed by over half. What's more, post-COVID shifts in popular opinion could suddenly enable changes in the regulatory framework concerning fast-track approvals.

A test of resilient leadership

C OVID-19 IS A crucible within which resilient leadership is refined. Acting without perfect information, often with only a few hours or days to spare, CEOs will have to guide their organizations through myriad decisions and challenges, with significant implications for their company's whole system—employees, customers, clients, financial partners, suppliers, investors, and other stakeholders—as well as for society as a whole.

Clarity of thinking, communications, and decision-making will be at a premium. Those CEOs who can best exhibit this clarity—and lead from the heart and the head—will inspire their organizations to persevere through this crisis, positioning their brand to emerge in a better place, prepared for whatever may come. Crises like these, with deep challenges to be navigated, will also lead to opportunities for learning and deepening trust with all stakeholders, while equipping organizations for a step change that creates more value not just for shareholders, but for society as a whole.



Appendix

Action guide—putting the mission *first*

Launch and sustain a crisis command center

Most organizations in the affected regions have launched some form of crisis response unit, either as a result of a preestablished crisis response plan or on an ad hoc basis, in order to gain an enterprisewide understanding of the impact and coordinate their efforts across functions. Subteams have been created to manage specific workstreams such as communications, legal, finance, and operations. They are operating with a clear mandate provided by executive management and have been empowered to make swift decisions in the areas that follow.

Such a command center doesn't have to be entirely on the defensive: It can also help to break traditional orthodoxies. Airlines that are canceling flights, for example, are making the downtime more productive by prioritizing scheduled maintenance for grounded aircraft—and reallocating larger planes to space-constrained routes—enabling them to make more efficient use of resources.²³

Support talent and strategy

The key to supporting your talent while they support your strategy involves focusing on the *work*, the *workforce*, and the *workplace*.²⁴

First, evaluate the actual *work* of your company and how it might be changed. Resilient leaders rapidly assess what work is mission-critical and what can be deferred or deprioritized, and then help teams understand where their focus needs to be (including what work is not strategically critical). Allow your people to focus on the most important tasks and empower teams to be creative in how they deliver nonessential work in ways that minimize unnecessary risk or exposure to your employees and your customers. Where work has to be onsite, evaluate what safeguards can be put in place, such as revised cleaning protocols or personal protective equipment.

The next focus is the *workforce*. The most effective plans encompass employees—as well as contractors, vendors, partners, and unions—who

A command center doesn't have to be entirely on the defensive: It can also help to break traditional orthodoxies.

need to be included to keep the entire workforce safe. Address the immediate COVID-19-related human needs for information, including education on COVID-19 symptoms and prevention and access to employee assistance resources. As the work itself contracts and/or expands, ensure that you have operational plans for site disruption and reactivation, including communicating to affected employees. While assessing possible changes to leave policies (such as for employees caring for

affected family members), also prepare for potentially higher absenteeism, lower productivity, and even work refusal until the situation ultimately normalizes post-crisis.

The *workplace* and its culture are also critical. Companies need to prepare worksites for containment and contamination, and ensure the safety of working environments by thoroughly cleaning and disinfecting workplaces. In the event that an employee is suspected of being infected with COVID-19, a clear process must be in place for adhering to local health care requirements for isolating and/or treating the employee at the facility.

COVID-19 may fundamentally change the culture of the workplace, how you distribute work and deploy your workforce, and how you engage your people. In the longer term, this situation may present an opportunity to think about how you elevate communications, create a more resilient workforce, and build more focus on health and well-being.

Maintain business continuity and financing

In almost every financial crisis, preservation of cash and liquidity is a top priority. When challenges impact all industries simultaneously, even the most financially stable can struggle. For example, companies with strong balance sheets in the 2008–2009 recession were among the many that still experienced liquidity constraints when commercial paper markets were suddenly interrupted. In some cases, this compromised their ability to meet basic short-term obligations.

The current crisis will be no exception, and it could even be more trying for many. A large number of companies now face weeks, if not months, of disrupted markets. For many industries—such as

travel and hospitality—the revenue lost during this period may be permanent, rather than made up later. That’s putting sudden, unanticipated pressure on working capital lines and liquidity.

Some companies may be able to maintain adequate flexibility by making drawdowns on their revolving credit facilities. Others are finding that they need to approach their banks to arrange temporarily larger facilities and/or covenant resets/waivers. Such efforts could prove unsuccessful, however, since banks may have reached their risk tolerance limits for a single credit. Revolving credit facilities may be frozen due to covenant limits and/or cross-defaults. Security packages hastily assembled to support new funding may be insufficient due to limited collateral availability or prolonged economic distress. Or companies may be looking for a highly customized, rolling short-term facility on terms that do not naturally fit into a bank’s standard product suite.

Beyond immediate cash needs, the finance function also must respond to potential accounting and financial reporting implications—if they can even get their books closed and/or audits completed in affected areas. For instance, some corporations implementing first-ever (and quite appropriate) remote work arrangements may face unexpected tax challenges when they are paying employees in a different local tax jurisdiction than their main office.

Shore up the supply chain

As the “world’s factory,” any major disruption in China puts global supply chains at risk. The COVID-19 crisis, originating from the highly industrialized province of Wuhan, highlights the potential perils of this dependency: More than 90 percent of Fortune 1000 companies had Tier 1 and/or Tier 2 suppliers in the most-affected China provinces.²⁵

A decades-long focus on supply chain optimization to minimize costs, reduce inventories, and drive up asset utilization has improved many companies'

supply chain efficiency. But COVID-19 illustrates that many companies are not fully aware of the vulnerability of their supply chain relationships to

STRENGTHENING THE SUPPLY CHAIN

Supply side: For companies that produce, distribute, or source from suppliers in affected areas, steps may include:

- Enhance focus on workforce/labor planning
- Focus on Tier 1 supplier risk
- Illuminate the extended supply network
- Understand and activate alternate sources of supply
- Update inventory policy and planning parameters
- Enhance inbound materials visibility
- Prepare for plant closures
- Focus on production scheduling agility
- Evaluate alternative outbound logistics options and secure capacity
- Conduct global scenario planning

Demand side: For companies that sell products or commodities to affected areas, steps may include:

- Understand the demand impact specific to your business
- Confirm short-term demand-supply synchronization strategy
- Prepare for potential channel shifts
- Evaluate alternative inbound logistics options
- Enhance ability to allocate to customers based on priority
- Open channels of communication with key customers
- Prepare for the rebound
- Conduct global scenario planning

Inside: For companies that operate or have business relationships in affected areas, steps may include:

- Educate employees on COVID-19 symptoms and prevention
- Reinforce screening protocols
- Prepare for increased absenteeism
- Restrict nonessential travel and promote flexible working arrangements
- Align IT systems and support to evolving work requirements
- Prepare succession plans for key executive positions
- Focus on cash flow

global shocks when optimizing for efficiency over resilience. Further, COVID-19 demonstrates that a global outbreak can have much longer-lasting impacts than a local epidemic on a supply chain, which endures foreshocks and aftershocks as hot spots evolve around the globe.

Without a comprehensive plan or playbook—and most organizations lack one for addressing a global outbreak—companies can overadjust, causing greater disruption and incurring unnecessary expenses. For example, some companies have responded to the COVID-19 crisis by imposing across-the-board inventory increases out of fear of running short of necessary supplies.²⁶ Such decisions need to thoughtfully consider the unintended consequences and shocks. For example, a bulge in retail apparel inventory concurrent with a rapid drop in consumer spending can exacerbate cash needs.

See the sidebar “Strengthening the supply chain” for important actions to consider to strengthen your global supply chain.

Stay engaged with customers

This is a critical moment that matters in the relationship with your customers, and it is a time for your company’s brand to lead. Customer needs can shift dramatically during crises such as this one, often from the rational to the emotional, and it is important for companies to intercept that shift. A study of consumer behavior found that a business’s traditional customer segments are at risk during a downturn, as their purchasing behavior is driven more by their emotional response to the economic volatility than by the characteristics businesses typically consider when defining their customer segments.²⁷

Particularly important is to take care to consider how your own sales efforts will appear. If you’re going to offer price cuts or marketing promotions, some might see that as an attempt to capitalize on a crisis—or worse, undermine public health efforts to encourage people to stay out of stores and other public places. Look at other benefits you can offer customers that help to sustain the customer relationship. For example, some hospitality companies are deferring the expiration of loyalty points.²⁸

Strengthen digital capabilities

Recommendations for “social distancing” have led organizations to expand their operations in the virtual, digital sphere. For many, this means asking their workforce to work from home. If you are preparing for increased remote work, ensure that the organization has the technology capacity to support it. Bandwidth, VPN infrastructure, authentication and access control mechanisms, and security tools all must be able to support peak traffic demands. Provide VPN/remote access to contractors and third parties who are supporting critical services, and purchase additional licenses for collaboration tools.

If you’re going to disperse your workforce remotely, make sure you have the protections in place to safeguard your networks and data.

The sudden increase in online activity can have big implications on system stability, network robustness, and data security, especially in parts of the world where telecom and systems infrastructure are not as well developed. Companies will need to act quickly to ensure they have the systems, and support staff, in place to

ensure smooth operation as the workplace and workforce evolves.²⁹ Also consider the often-overlooked impact of such arrangements on employees who may feel socially isolated—or the potential loss of innovation when you limit in-person interaction.

A particular concern is that cyber risk multiplies when the workforce is suddenly distributed. Although many companies may be set up for remote work, far fewer have the proper cybersecurity protocols in place. Since the crisis began, phishing scams and other attacks have been on the rise, targeting employees working from home ... from the coffee shop ... from any open network.³⁰ If you're going to disperse your workforce remotely, make sure you have the protections in place to safeguard your networks and data.

Maintaining customer connections virtually amid shifting behaviors also has challenges. As COVID-19 fears rose in the United States in early March, online sales increased 52 percent year over year, and the number of online shoppers increased 8.8 percent.³¹ While retailers may want to move more sales online to offset declining store traffic, they should ensure that their team has tested a scaled capability before making such a shift. Providing substandard service could do more damage to your brand long-term than the lost sales in the short term.

Engage with your business ecosystem

Most companies' networks—suppliers, vendors, customers, investors, employees, and other stakeholders—have grown exponentially since the last economic downturn. In a crisis, these massive global ecosystems add another layer of complexity

and potential vulnerabilities—but they can also offer opportunities. Questions to consider include:

- How can we lean on the ecosystem to improve the resilience of individual organizations during periods of disruption?

Finally, as new business models emerge from the crisis, can you become the nexus of a new, emerging ecosystem that's built for the “next normal”?

- How am I extending my stakeholder communication to embrace ecosystem partners that have become critical components of the business model?
- What additional data might my partners have to improve my own operations? For example, one B2B technology supplier is seeking to augment its short-term inventory planning by increasing transparency with its manufacturers.³²
- For the investor community—the more traditional “ecosystem”—what level of communication is appropriate? Some companies have stopped offering financial guidance to investors in light of the crisis,³³ but organizations should not stop all communication. Keep your investors updated with as much information as possible.

Finally, as new business models emerge from the crisis, can you become the nexus of a new, emerging ecosystem that's built for the “next normal”?

Endnotes

1. Angela N. Baldwin, "How novel coronavirus compares to SARS, MERS and other recent viral outbreaks," ABC News, March 2, 2020.
2. Chuin-Wei Yap, "China's factories struggle to resume operations after virus shutdown," *Wall Street Journal*, February 8, 2020.
3. Deloitte, *COVID-19: Practical workforce strategies that put your people first*, 2020.
4. Personal experience of colleagues of the author.
5. Business Roundtable, "Business Roundtable redefines the purpose of a corporation to promote 'an economy that serves all Americans'," August 19, 2019.
6. Caterina Bulgarella, "Purpose-driven companies evolve faster than others," *Forbes*, September 21, 2018.
7. HBR IdeaCast, "Turning purpose into performance," podcast, *Harvard Business Review*, July 24, 2018; Jim Clifton, "How DTE Energy emerged stronger after the great recession," Gallup, December 2017.
8. Sean Czarnecki, "Eight in 10 consumers say they're more loyal to purpose-driven brands: Cone," *PR Week*, May 30, 2018.
9. Bulgarella, "Purpose-driven companies evolve faster than others."
10. Deloitte, *10 key actions for enterprises in an epidemic*, accessed March 13, 2020.
11. Apple, "Apple's COVID-19 response," accessed March 14, 2020. *The heart of resilient leadership: Responding to COVID-19* is an independent publication and has not been authorized, sponsored, or otherwise approved by Apple Inc.
12. Juli Clover, "COVID-19 coronavirus: Impact on Apple's iPhone, Mac and WWDC," MacRumors.com, accessed March 14, 2020.
13. Personal experience of colleagues of the author.
14. Ranjay Gulati, Nitin Nohria, and Franz Wohlgezogen, "Roaring out of recession," *Harvard Business Review*, March 2010.
15. Ibid.
16. Personal experience of colleagues of the author.
17. John Hagel III, John Seely Brown, and Lang Davison, "Shaping strategy in a world of constant disruption," *Harvard Business Review*, October 2008.
18. Conversations with government leaders by colleagues of the author.
19. UNESCO, "290 million students out of school due to COVID-19: UNESCO releases first global numbers and mobilizes response," accessed March 14, 2020.
20. Mike Baker, Anemona Hartocollis, and Karen Weise. "First US colleges close classrooms as virus spreads. more could follow," *New York Times*, accessed March 14, 2020.
21. Ram Sagar, "11 ways AI is fighting coronavirus outbreak," *Analytics India Magazine*, accessed March 12, 2020.
22. Ibid.
23. Conversations with industry executives by colleagues of the author.

24. Adapted from Deloitte, *COVID-19: Practical workforce strategies that put your people first*, 2020.
25. Dun & Bradstreet, *Business impact of the coronavirus: Business and supply chain analysis due to coronavirus outbreak*, February 2020.
26. Conversations with company executives by colleagues of the author.
27. John Quelch and Katherine E. Jocz, "How to market in a downturn," *Harvard Business Review*, April 2009.
28. Personal experience of colleagues of the author.
29. Khalid Kark, *COVID-19: People, technology, and the path to organizational resilience*, Deloitte, 2020.
30. James Rundle, Catherine Stupp, and Kim S. Nash, "Hackers target companies with coronavirus scams," *Wall Street Journal*, March 4, 2020.
31. Jeremy Scott, "Mapping the US coronavirus impact," white paper for SimilarWeb, March, 2020.
32. Conversations with company executives by colleagues of the author.
33. Jessica Bursztynsky, "Coronavirus fallout: At least 150 companies have warned of earnings hit," CNBC, March 11, 2020.

About the author

Punit Renjen

Punit Renjen became Deloitte Global CEO in June 2015, and was reelected in 2019. Deloitte operates in 150 countries, with more than 300,000 professionals and 2019 revenues of US\$46.2 billion. Renjen is also a member of the Deloitte Global board of directors.

As Deloitte Global CEO, Renjen set in motion a global strategy to achieve undisputed leadership in professional services. In his first term, he led collaborative strategic efforts that resulted in more consistent experiences for Deloitte's clients, professionals, and communities. Under Renjen's leadership, Deloitte launched WorldClass—a global effort to prepare 50 million futures for a world of opportunity—based on the belief that when society thrives, business thrives.

Prior to his current role, Renjen served as the chairman of Deloitte LLP (US member firm) from 2011 to 2015. As chairman, he led the board in providing governance and oversight on priority matters such as firm strategy, operations, risk mitigation, and talent development.

In 2020, Renjen was awarded the Oregon History Makers Medal by the Oregon Historical Society in recognition of his visionary business leadership. Outside of Deloitte, he is a member of the Business Roundtable and the International Business Council of the World Economic Forum. He also serves as the member of several not-for-profit boards, including the US-India Strategic Partnership Forum (vice chairman). Previously, he served as the chair of the United Way Worldwide.

Renjen was born and raised in India. He moved to the United States on a Rotary Foundation scholarship to attend Willamette University, where he earned a master's degree in management; he previously served on the Willamette University board of trustees. He is married and has a son.

Contact us

Bill Marquard

Global COVID-19 client response PMO | Managing director | Deloitte Consulting LLP
covidclientpmo@deloitte.com

Bill Marquard serves as a director with Monitor Deloitte, where he works with CEOs, senior executives, and their teams to develop and deliver growth strategies. With more than 30 years of experience and as a senior strategy executive, he has helped numerous leadership teams radically grow their businesses. His specialties include business strategy, translational strategy, cost reduction, corporate transformation, corporate restructuring, and consulting practice leadership. As a thought leader, he published a book titled *Wal-Smart: What it Really Takes to Profit in a Walmart World*, and has been featured as a leader in business strategy in multiple media outlets including CNN, CNBC, First Business, the *Wall Street Journal*, and the *Chicago Tribune*. Marquard also served on the faculty of Northwestern's Kellogg School of Management, and has lectured at the White House, Duke University, the University of Notre Dame, and DePaul University.

For client inquiries, please contact covidclientpmo@deloitte.com.

For media inquiries, please contact globalcommunications@deloitte.com.

Deloitte. Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.



Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Junko Kaji, Preetha Devan, Blythe Hurley, and Rupesh Bhat

Creative: Molly Woodworth, Sylvia Chang, and Adanya Manshiva

Promotion: Amy Bergstrom, Hannah Rapp, and Nikita Garia

Cover artwork: Alex Nabaum

About Deloitte Insights

Deloitte Insights publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte Insights is an imprint of Deloitte Development LLC.

About this publication

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Copyright © 2020 For information, contact Deloitte Touche Tohmatsu Limited.