

# Effective board decision-making and strategic thinking in challenging times



July 21<sup>st</sup>, 2020



# Structure

- **Challenges facing boards**
- **Optimising board decision-making in a crisis**
- **Impact on strategy, business models and budgets**
- **Role of technology in new strategic thinking**
- **Managing impact and tradeoffs across shareholders, employees and stakeholders**
- **Approaches to Capital Expenditure**
- **What is working well for boards navigating through the crisis**



# Challenges facing boards

- **Extreme volatility and uncertainty**
- **Radical changes within customer requirements and environment**
- **Current business models and strategy have become obsolete in certain sectors**
- **Boards needing to move at hyper-speed to make major and far-reaching decisions often with very little visibility and hard data**
- **Huge disruption to supply chain, manufacturing and traditional customer engagement**
- **Increasingly difficult financial environment**



# Optimising major decision-making in the eye of a storm

- Virtual board meetings
- Quality of information flow
- Compressed decision-making timeframes
- Living with incomplete information and unclear scenarios
- Critical role of high-quality challenge and debate
- Engaging key shareholders, stakeholders and bringing in external expertise where needed
- Board dynamics - *“trust-equation of the board”*
- Understanding broader impacts and downstream consequences of major board decisions



# Lessons learned - how board and executive teams are adapting

- **Historical data and forecasting models of limited to little use given complexity and volatility of market environment**
  - **New data and completely rebuilt analytical models will be essential to steer operational decisions.**
- **Many boards have established special committee/working groups to support assessment and modelling of strategic options**
- **Critical for the board to have a very current and realistic understanding of**
  - **“where their customers are at, what they need in the short-term and how their requirements are evolving medium/longer-term”**
  - **their competitors, how they are adapting ....**
  - **the sector and broader market developments**
- **Many boards are bringing in external expertise to help, particularly in areas such as technology, as well as providing a critical independent perspective on proposed major strategy shifts**



# Board's approach to strategy framing post Phase 1 Covid-19 crisis

Gain a realistic view of your *starting position*

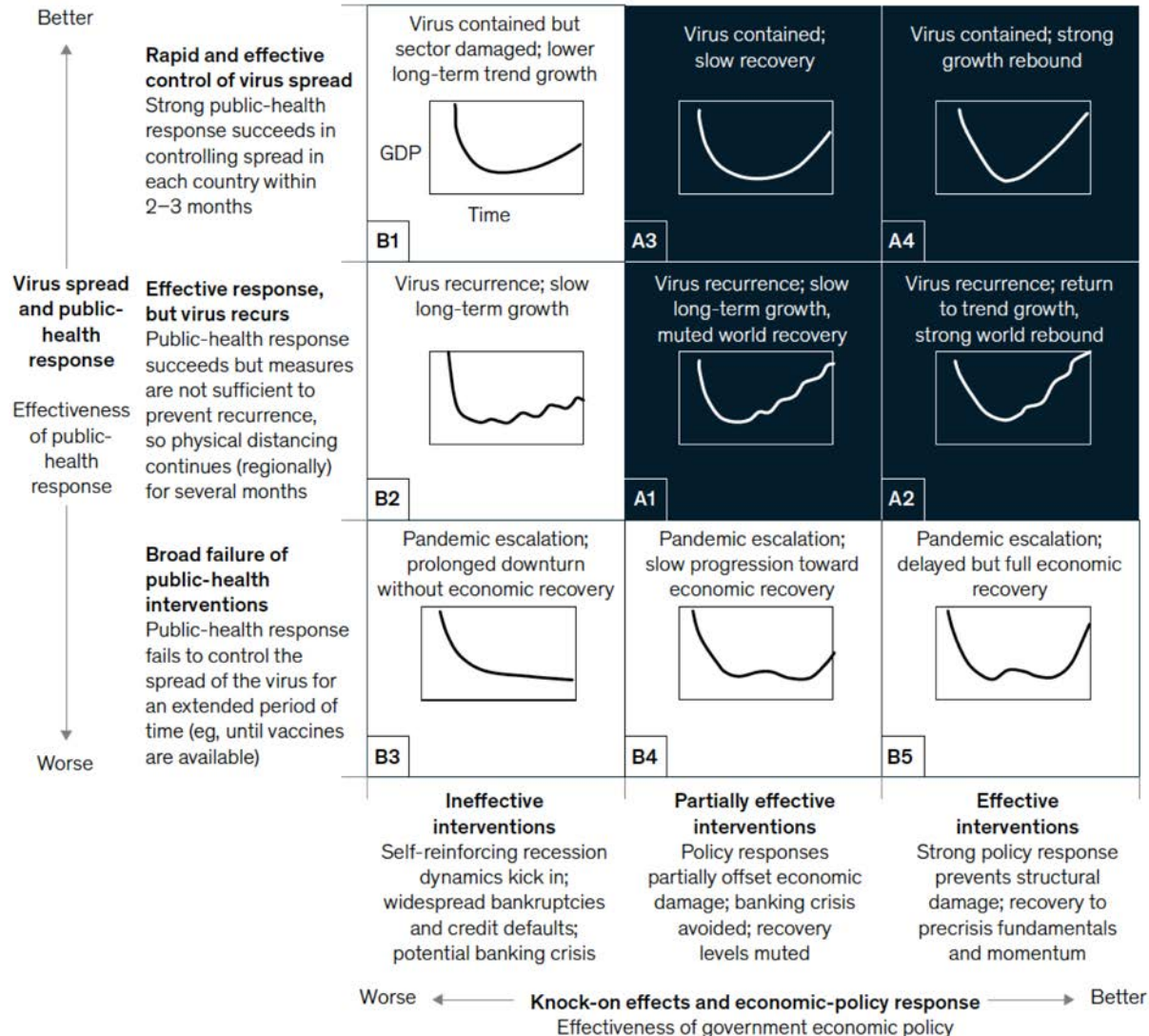
Develop *scenarios* for multiple versions of your future

Establish your posture and *broad direction of travel*

Determine *actions and strategic moves* that are robust across scenarios

Set *trigger points* that drive your organization to act at the right time

GDP impact of COVID-19 spread, public-health response, and economic policies

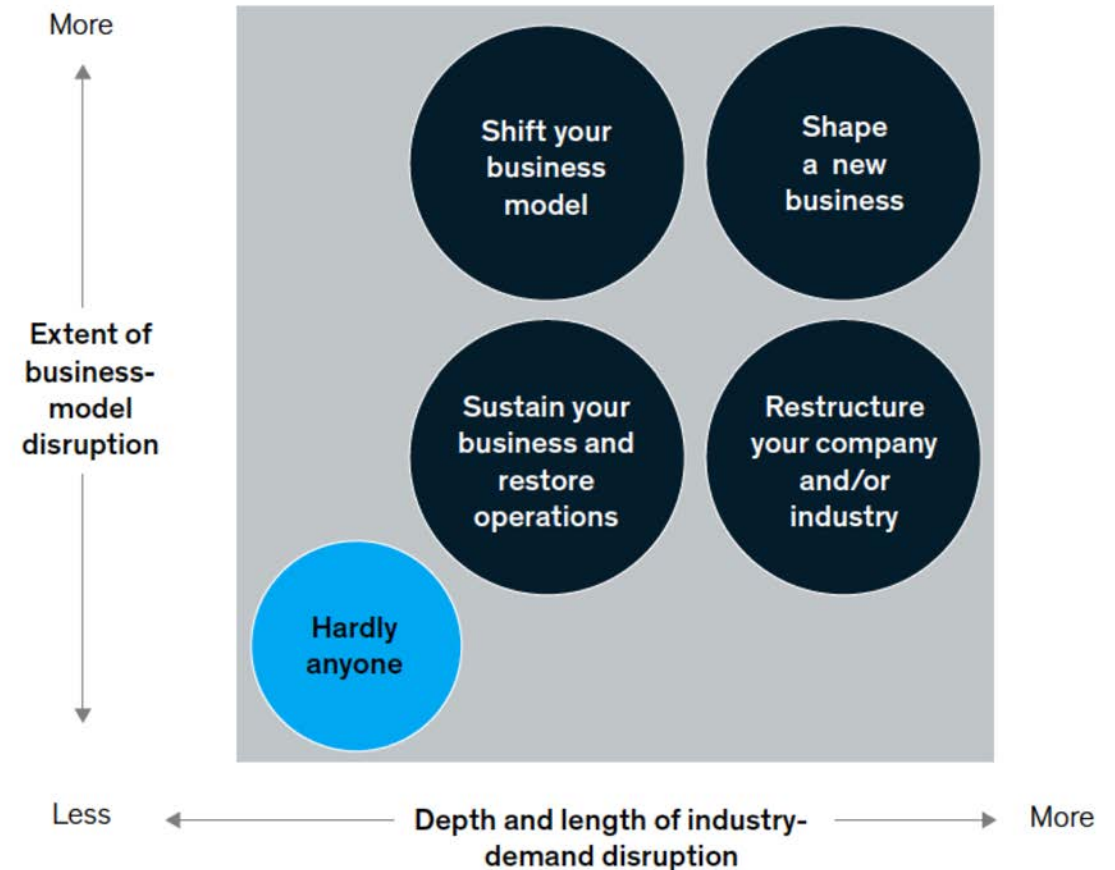


# The board's judgement on recognising big calls needing to be made

- In a world of extreme un-certainty, a rigid deterministic plan won't be right for very long – **focus on a flexible plan that is iterating based on trigger points.**
- Many executives and boards are acknowledging that current budgets are dead in the water and extremely challenging to set new budgets – **this will potentially force a much more agile, real-time approach to resource allocation, perhaps one of working in quarterly sprints**
- Increasing focus on boards and executive teams operating at high-speeds **where the bias is towards speed rather than perfection.**
- This increases the **focus on the effectiveness, performance, judgement and decision-making capability of the board team.**

Choose a strategic direction based on shifting disruption and options.

Broad direction of travel toward next normal



# Role of technology in board's strategic options

- Technology is playing a key role in enabling companies across the world to rapidly adapt to the Covid-19 crisis
- Research has shown that in 3 months, we have jumped 5 years forward in consumer and business digital adoption
  - Financial Services companies transitioning to remote sales/service
  - Food sector “to-go” and online ordering/delivery
  - Growth of telehealth
  - Manufacturers moving to “lights out” factories and supply chains
- Boards are increasingly realizing benefits of a remote agile workforce harnessing technology but also carefully considering the impacts on cyber-security
- Critical for the board to understand that many customers “have already migrated to digital”
  - going forward your company will need to adapt to changing customer requirements and environment







Getting the board ready for some big calls and tradeoffs over the coming months

- In recent years, major focus by boards and institutional investors on
  - Multi-stakeholder engagement + Employee Engagement
  - Environment Social Governance (ESG)
  - “doing the right thing” to safeguard the long-term interests of the company
- This next phase of the Covid-19 crisis will severely test all of these – very tough choices will have to be made and will severely challenge company boards, shareholders & employees
- Importance for board to ensure high quality challenge, debate, oversight and decision-making
  - particularly in balancing the priority of safeguarding the financial health of the company with potential impacts on employee numbers and safeguarding the overall reputation of the company in the eyes of customers, market and overall stakeholders

# How boards are approaching capital expenditure

- **Critical importance of board doing a fundamental re-set of Capital Expenditure plans**
- **Investing to reflect changes in consumer and customer behaviours and supporting strategy changes**
- **Exploit opportunities in lower demand market to access equipment, plant, machinery and manufacturing inputs at lower costs**
- **Invest to address under-capacity and upgrade equipment to improve efficiency and capacity with newer technologies**
- **Invest in organic growth capacity which may deliver attractive returns on investment**
- **IT and technology investment to underpin a highly flexible remote workforce & customer engagement model**



# How boards are seizing the opportunity .....

- Opportunities to buy crisis-weakened competitors and adjacent sector companies at attractive prices
- Boards embracing “*Crisis is the mother of invention*” to deliver new innovative business models and re-thinking supply chains
- Significant acceleration of the company’s “digital transformation” to match how consumers and customers have embraced digital
- Capturing the benefits of a highly remote flexible workforce and customer engagement model
- Strengthening operational resilience and being optimally prepared for continued “public-health & economic after-shocks”
- Integrating ESG at the heart of new company strategy



- The SARS pandemic of 2002-2004 catalyzed the meteoric growth of a then small e-commerce company called **Ali Baba** and helped establish it at the forefront of retail in Asia
- This growth was fuelled by underlying anxiety around traveling and human contact, similar to what we see today with Covid-19



## What is working well for board teams ....

- **The un-precedented scale of the crisis has galvanized board & executive teams**
- **The move to virtual video-meetings has supported boards moving quickly in the crisis management phase and assessing major strategic decisions**
- **Non-executive board members stepping up to provide additional expertise and support to the CEO & Executive team**
- **Boards forced to embrace dramatic changes in how the company is working and delivering to customers are now capturing the positives and building on this innovation**
- **“Independence of mind” from non-executive directors is helping CEO/Executive teams in charting new strategic directions**

# Key takeaways for boards

- **Balance cost cutting, productivity and risk mitigation with supporting innovation-led growth and strategy and business model shifts where needed**
- **Boards are moving to agile approaches to strategy and budgeting that tend to work better in situations of high uncertainty**
- **Technology and IT playing a fundamental role in companies adapting and thriving**
- **Capital strategy and investment decisions will have a disproportionate effect on determining which companies strengthen their positions competitively and structurally in advance of the next economic upturn**
- **The Darwinian effect comes into play, with boards and companies needing to adapt to survive, thrive and seize emerging opportunities**



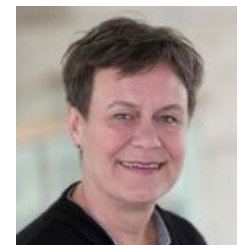
# Contact us

## FMO – Netherlands Development Finance Company

Anna van Saksenlaan 71  
2593 HW The Hague



**Nicci Bouwman**  
Senior Corporate  
Governance Advisor,  
Impact and ESG Department,  
Tel. +31 (0)70 314 9536  
N.Bouwman@fmo.nl



**Felicie Ameschot,**  
Senior Corporate  
Governance Analyst,  
Impact and ESG Department,  
Tel. +31 (0)70 314 9878  
F.Ameschot@fmo.nl

## DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Kaemmergasse 22  
50676 Cologne



**Erik Wessels,**  
Senior Corporate  
Governance Officer,  
Sustainability Department,  
Tel. +49 221 4986-1223  
erik.wessels@deginvest.de



**Veronika Seibt,**  
Corporate Governance  
Officer,  
Sustainability Department,  
Tel. +49 221 4986-1872  
veronika.seibt@deginvest.de

## Board Excellence, Ireland



**Kieran Moynihan,**  
Managing Partner,  
Tel. +353 86 835 8135  
kieran@boardexcellence.ie



**David O'Callaghan**  
Partner,  
Tel. +353 86 852 7660  
david@boardexcellence.ie

