

# Beyond the storm

Critical questions for leaders of businesses aiming to thrive and grow out of the coronavirus crisis



Innergise Pty Ltd, Melbourne, Australia.  
ABN 14 605 954 818  
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### The challenge

The world is in the midst of a pandemic which, while not unexpected, has hit with a speed and scale of impact that is unparalleled. Governments have created economic crises by shutting down society to control the health crises. As Australia and other nations around the world ease restrictions on movement and business, the recognition is growing that the world won't "return to normal". Business is central to the economic recovery and leaders are asking "What do we need to do now to thrive in the months ahead?"

### The solution

Every organisation will respond to the crisis in their own unique way. But all organisations can take similar steps to discern what their best response would be. The board of directors has an important role alongside the executive team to set up the organisation to survive and thrive in the medium term. Undoubtedly there will be growth opportunities. Whether these opportunities are identified and grasped will depend on the attitude and approach adopted now. Identifying and exploring some critical questions can clarify and shape the way ahead.

### The benefits

In a crisis, an executive team must be supported by the board to respond swiftly and effectively to immediate challenges to business continuity. While the board "gets out of the way" of management, it can be building its "strategic muscle" for the challenges ahead. While the situation can feel confusing and overwhelming, a carefully structured suite of questions can allow the board to engage in crucial conversations that bring clarity and coherence to the organisation's strategy and practices beyond the crisis.

*“Only a crisis – actual or perceived –  
produces real change. When that crisis occurs,  
the actions that are taken depend on the ideas  
that are lying around.”*

Milton Friedman

# Beyond the storm

As Australia works toward relaxing social isolation rules and prepares to reboot the economy, business leaders are questioning what the new normal will look like. How will business conditions continue to evolve and what needs to be done now to thrive in the months ahead? This paper provides some insights and critical questions for company directors and executives to address in preparing for a new world.

## A little history

One year ago in April 2019, Treasurer Josh Frydenberg rocked to the beat of Back in Black. It was the theme of his first budget as Australia's treasurer, signalling that in 2020 the Australian government would be back in surplus. It would be the first time in more than a decade.

It was a pre-election budget founded on some bold assumptions. It promised tax cuts, congestion-busting infrastructure and more doctors and mental health services for the bush. These benefits wouldn't arrive straight away, of course, but in the next four years (or the four years after that). At the time, journalist Annabel Crabb<sup>1</sup>, commented "In this environment of global unpredictability we now inhabit, *the very idea of forecasting four years into the future feels bizarre.*"

The federal government was returned to power in May 2019 thanks to "the quiet Australians". Prime Minister, Scott Morrison, reassured voters the economy was strong, resilient and under the Coalition's plans would "keep ticking along". This was despite the country's economic growth slowing to its weakest point since the global financial crisis.

In October 2019, AICD's Chief Economist, Mark Thirlwell, said "The Reserve Bank says that the

economy should strengthen from here, but for now directors aren't buying it. Rather, they see the risk of further deterioration ahead."<sup>2</sup> At the time, most of eastern Australia was in drought and bushfires had been burning since June.

By mid-January 2020, the Prime Minister was being pilloried for his poor leadership of the "unprecedented bushfire crisis" and his government's dismissive attitude to the climate emergency<sup>3</sup>. Ironically, at the same moment, the World Economic Forum<sup>4</sup> identified climate action failure as the top global risk.

## Navigating into the storm

On 25 January, the first case of coronavirus was confirmed in Australia when a man returned from Wuhan, China<sup>5</sup>.

By mid-March Australia's borders were closed and social isolation was imposed. Now, nearly two thirds of businesses are suffering plummeting demand for their products and services<sup>6</sup>, and governments take on debt exceeding \$320 billion (16% of GDP) to prop up the economy<sup>7</sup>. On the upside, supermarkets are booming and farming prospects are up. Oil is being given away.

By world standards, Australians have navigated the COVID-19 crisis remarkably well, thus far.

Citizens (and politicians) have been reminded of the importance of a trustworthy government and the power of people unifying against a common foe.

## Emerging from the storm

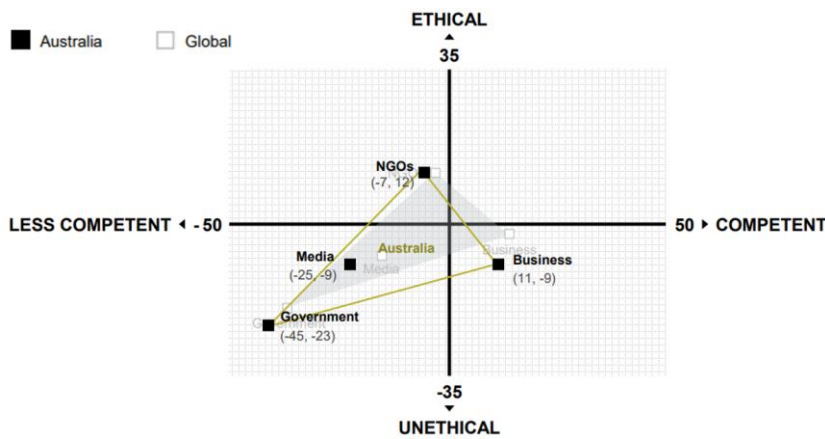
Today, Australia is moving slowly but surely toward easing the requirement for social isolation, to open up schools and businesses. Clearly, this does not mean the crisis has passed. Maintaining public health and rebuilding the economy remains a critical communal problem.

Indeed, as we emerge from the unifying clarity of virus-induced isolation into the uncertainty and complexity of the world beyond, it seems that the challenges might only escalate. Business leaders are genuinely questioning "What is on the other side of the storm?" and "*What do we need to do now to thrive in the months ahead?*"

## A clear role for government

Averting the health crisis has incurred an economic crisis. Nearly 800,000 Australians have lost their jobs. Millions more have had their work hours reduced or are working differently<sup>8</sup>. Unemployment is predicted to rise to between 10% and 15%.

So, the priority for government is clear: to restore economic growth so that people can return to work and debt can be repaid.



**Figure 1.** Before the pandemic, Australian businesses were considered competent but unethical by the general population (Edelman Trust Barometer, 2020)

Remember that our economy was faltering before we encountered COVID-19<sup>9</sup>. So, it will be essential to remove major impediments to economic growth. Taxes on income, consumption and land must be reformed along with innovation policy and industrial relations. At the same time, people will be seeking government support for education and retraining as many of the jobs that were lost will not return.

To pay down debt, *governments will also be looking for cost savings* rather than raising taxes. Any increase to business and household costs puts confidence, spending and thus the economy at greater risk.

### Muted consumer spending

While the Australian Government has taken on considerable debt to keep people in jobs it has not reached all workers<sup>10</sup>. Many are now having to draw on limited savings and superannuation to survive. If the need for social isolation drags on, more businesses and households will become bankrupt.

Indeed, Australian households are already the most indebted in the world<sup>11</sup>. Paying for basic necessities, paying down debt and establishing some precautionary

savings may be the priority of households for many months. So, we should expect a lower than ordinary level of consumer demand over the medium term. That is, *consumer spending should not be looked to as the stimulus for an economic recovery.*

### A critical role for the business community

Consequently, there is a critical role for private investment and the business community in Australia’s economic recovery.

Like governments, the private sector is seeking the highest impact, least cost way of rebuilding consumer confidence and demand. Business leaders will be keenly focused, endeavouring to *ensure that every dollar spent creates maximum value.*

But in a society where COVID-19 has increased unemployment and

inequality, will economic inclusion be on the private sector agenda?

And does the disposition and capability exist within our business community to navigate and thrive in a world of uncertainty, within a community that generally views it as unethical<sup>12</sup>.

### Uncertainty on steroids

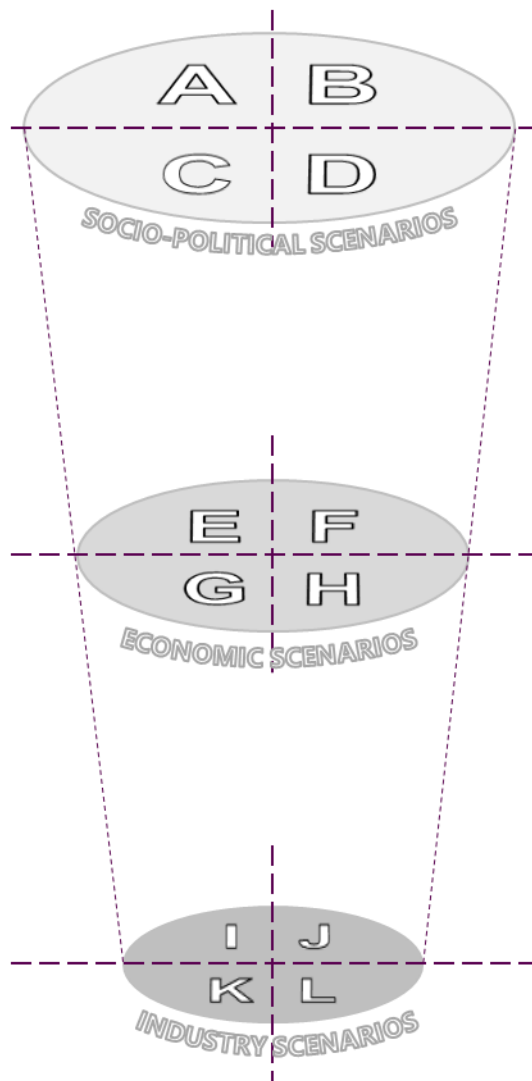
Any assumption that coming out of social isolation means “getting back to normal” is naïve. Many businesses are already adapting their business models (think telehealth) and social attitudes are changing. Indeed, there are good reasons to argue against returning to our prior state of thinking, operating and governing.

While the social disruption experienced in Australia is less than other countries, and consequently the political impetus for change is lower, there will still be a suite of policy reforms by federal and state governments. These represent just one aspect of the uncertainty and complexity that businesses must navigate.

How the community responds to circumstances will have major consequences too. Current crises have raised big questions like “Is the economy serving private interests at the expense of public interests?”, “Who are the most essential workers?” and “Are we more entwined and vulnerable to Nature than we think?” More fundamentally, as people move through different environments,

*“How do we make sense of the situation?  
I’m not sure anyone can.”*

John Mullen, Chair of Telstra and Toll Holdings<sup>13</sup>



**Figure 2.** Responses to the coronavirus crisis could be many and varied making it virtually impossible to predict the medium-term future with any confidence.

like public transport or high-density apartments, they will be asking “Do I feel safe?”

Quite simply, many shifts in community expectations, public policy and economic and business activity are possible locally and abroad (see Figure 2). The combinations and permutations are vast, making the medium-term future impossible to predict.

### Leading your business response

How we respond to these and other questions as leaders in business, public enterprise and the community will reflect our sense-making capability and values. It will be reflected in the choices we make. Those choices could create confusion, fear and anger or comfort, hope and productivity.

What then are the practical actions you should take to maximise the odds your business and its stakeholders can thrive over the medium term?

### GOVERNING WITH PURPOSE

Prior to COVID-19, company directors, investors, regulators and academics around the world were debating and revising the role of business in society<sup>16</sup>. Now this question is front and centre ...

### An evolving socio-political situation

Community attitudes, expectations and political allegiances may change substantially. It’s become clear that politicians can mobilise substantial resources quickly if the issue is deemed sufficiently important. Indeed, many norms and routines in society are now seen not as fixed but arbitrary. And perhaps now there’s a greater sense that people deserve to be able to live well even if they can’t work.

#### Where on a spectrum will future attitudes lie?

Individual, materialistic ↔ Communal, experiential  
 Personal prosperity ↔ Inclusive growth  
 Personal privacy ↔ Community welfare  
 Nature exploitation ↔ Nature rehabilitation  
 Reject science ↔ Embrace science

### The economy in transition

Many countries entered the pandemic already in a weakened position. They are now saddled with higher levels of debt, unemployment and supply chain insecurity. Less diverse economies are particularly vulnerable. It’s not implausible that some states will fail, with people flooding to regions exhibiting stronger economies and health systems.

#### What choices will be made? What situations will emerge?

Markets decide ↔ Government decides  
 Local supply ↔ Global supply  
 Market oligopolies ↔ Market diversity  
 Externalities ignored ↔ Externalities internalised  
 Private losses allowed ↔ Private losses socialised  
 Growing cities ↔ Growing regions

### Businesses responding but also shaping

A majority of businesses will be struggling to grow in markets with low consumer demand. Cost control and productivity will be an ongoing focus, making the high cost of labour open to scrutiny. Caution might give way to innovation, escalating reliability, quality, privacy, fraud and cybercrime risks.

#### What direction will industry and consumers take?

Virtual world ↔ Real world  
 Office work ↔ Home work  
 Automation ↔ Augmentation  
 Privatised science ↔ Open source science  
 In-store shopping ↔ Online shopping

and the answer has possibly never mattered more.

While executives are busy dealing with immediate issues of business continuity, directors should be reviewing the expectations, material issues and direction of the organisation in the medium term.



#### BOX 1

##### Why are we here?

We must learn from this crisis. The tragic and ongoing loss of thousands of lives must not be in vain. This means facing into the real root causes of the dual health and economic crises, and what's required of us in building more a resilient, prosperous society.

Leading scientists have demonstrated that rampant deforestation and exploitation of wild species has created the perfect storm for the spill-over of diseases. Today, roughly 70% of emerging human diseases originate from contact with wild animals<sup>14</sup>.

So, while it might be politically expedient to relax environmental standards to prop up industries, it essentially subsidises the emergence of future pandemics.

While the cost of environmental protection and rehabilitation may be billions of dollars per year, a pandemic can cost trillions. By the end of 2020, "rich-world public debt" could run to \$66 trillion or over 120% of GDP<sup>15</sup>.

To be able to lead and govern your organisation with clarity, creativity and conviction, you should examine the ideology that shapes your organisation. Discuss these five questions:

- How is the role of our business in society changing?
- What societal outcomes can we influence effectively, constructively and responsibly?
- If consumption is the route to economic recovery, what characteristics make goods and services worthy for consumption?
- How is our business purpose more or less relevant? Do we need to pivot?
- What are the big assumptions we're making that might not be true?

#### LEADING STRATEGICALLY

Business leaders have always had to negotiate uncertainty. Now it's more vivid and confronting. But rather than fighting and reacting to it, you could *be assertive and embrace it*. Many business leaders will not have experienced a similar opportunity to redirect, declutter and energise their business. Four questions to examine are:

- What do we need to do to enhance the clarity and power of our strategies?
- What are we collectively inspired to create?
- What are the three business-shaping choices that are crucial for us to make?
- What recalibrations should we make to our risk appetite?

Make sure the board and executive team discuss these things together. You will need to build a collective consciousness and make sense of the uncertainty together. Otherwise, different interpretations of the business

#### BOX 2

##### Scenarios aren't optional

Scenarios have always been a feature in good strategic analysis but now they are essential.

Your scenarios should be framed around business-critical variables that have uncertain outcomes.

Work across multiple time horizons, discerning between short-term changes triggered by the shock of COVID-19 and longer-term shifts arising from the enduring stress it has created.

What trends are reliable and which are speculative, and what factors while concerning are less relevant to your industry or business? Climate change, for example, will be a feature in all scenarios as it presents a significant, predictable and enduring condition.

Identify options for action, particularly those that are sensible under a number of different scenarios. Remember that it's not about starting with the perfect plan; it's about being on the fastest improvement trajectory<sup>17</sup>.

Beyond the immediate insights scenarios provide to build robust business strategies, they also build a collective awareness how circumstances can change. This enables an attentiveness to the early signals of emerging important shifts.

Indeed, it may be wise to brace for another crisis. In Australia, we are probably just lucky that we weren't fighting bushfires at the same time as the coronavirus outbreak. Could your organisation survive, say, a water-borne virus outbreak at the same time as a cyber-attack or a warm conflict in south-east Asia?



conditions will hamper effective decision making, sap confidence and destroy alignment and productivity.

### ENABLING GROWTH

In the midst of a recession it might seem that there are no growth opportunities. But change brings opportunity. To be successful, you need to adjust your perspective and expand your economic imagination. Consider:

- What now are our customers' unmet needs?
- What do customers value more now than before?
- How can we make customers more "sticky"?
- How can we act more nimbly than our competitors?
- How is your market access changing? What partnerships can expand our access?
- What market segments could benefit from our capabilities (e.g. clothing manufacturers producing protective masks)
- What should we divest and/or acquire to facilitate future growth?

It might be that your access to international markets is impeded but local demands are growing, particularly for simpler, lower cost products that can be trusted. Customers might particularly appreciate service options that allow them to expand over time and pay on an instalment basis.

### ENHANCING PRODUCTIVITY

Emerging from COVID-19, all organisations will need to invest carefully. Every dollar spent needs to create value. So, how do you best allocate resources on a day to day basis, particularly when so much is uncertain and conditions can still change quickly?

*“Resilience is no longer a theoretical concern. Companies and countries have been made painfully aware of the fragility of the critical systems on which they depend.”*

Rich Lesser and Martin Reeves<sup>18</sup>

Some questions to help identify productivity improvement opportunities are:

- What initiatives should we stop because they add little value?
- How can we achieve greater utilisation of valuable assets?
- What service extensions can we offer to existing customers?
- How should we refocus our innovation, research and development investments?
- How can we engage our people to drive week-on-week performance improvements?
- What parts of the business are over-optimised and consequently fragile?
- What low value, highly repetitive work can we automate?

### FINANCING GROWTH

Beyond the short-term issues of cash flow and solvency, you need to set the business up to fund growth over the medium term. This may require you to rework your budgets.

- What functions should be operating on a survival budget?
- How should we adjust cash reserves and access to debt to fund future growth?
- What provisions do we need to make for bad debts and inflation?
- What non-core business functions can we outsource to reduce recurrent costs?

- How do we align our financial arrangements and shareholder expectations?

Try to move beyond incremental adjustments to budgets to make sure you are resourcing for the future, not the past.



#### BOX 3

#### Solve problems better

It is confronting but true that much of the time people are solving the wrong problems. It's a major impediment to productivity growth. To overcome it, first encourage people to ask, "Are we solving the right problem?"

Second, maintain a sharp focus on those things that create value for your customers. Don't assume a business-as-usual response is still fit for purpose, nor jump at the first solution idea. Generate a range of ways the customer value and outcome can be delivered.

Third, make a range of small bets. Reduce your investment and risk by trying solutions as quickly and simply as possible. Embrace and improve those that work best. Learn fast and *compete on the basis of your rate of learning.*



**BOX 4**

**Remove your own red tape**

While systems, procedures and rules have their place, they can also stifle innovation and be a significant self-imposed ‘red tape’ cost. In fact, Deloitte Access Economics found that the cost of complying with self-imposed rules in the private sector is double that attributable to government regulations<sup>19</sup>.

It can be a better investment to equip people to make good decisions on the basis of values, good-business principles and customer interest than to follow ever-expanding rules and procedures.

**REMAINING HYGIENIC**

While you are making the business fit for the future, you can’t forget matters of hygiene. The business must remain viable by complying with regulations and mitigating critical business risks. Of course, there are also opportunities here for value creation. It needn’t just be a drain on resources. Some questions to explore are:

- Who is responsible for keeping close to regulators and emerging policy shifts?
- How will safety expectations evolve in a post-COVID-19 world?
- How can we benefit from a heightened focus on cyber resilience?
- What adjustments in our financial and business reporting will enhance trust?

- How could we derive value by exceeding minimum regulatory standards?
- How can we make regulations irrelevant?

**LOOKING AFTER YOUR PEOPLE**

Over the medium term, the work environment has the potential to be tremendously exciting but also very stressful. The pace of learning and adjustment will likely be high. People will learn lessons that will serve them well throughout their careers. But this will also expose people to mental health risks. Those that can’t cope with the pressure will be particularly vulnerable. So, look after your people, from the top floor to the shop floor. Make their health and welfare an authentic, overt priority.

**MAKING IT HAPPEN**

The question then becomes “Can you pull this off?” Do you have the leadership skills, culture and alignment to succeed? Based on the low levels of productivity and innovation commercialisation occurring prior to our current crisis<sup>20</sup>, it’s reasonable to assume many organisations will struggle. Undoubtedly, it presents a challenge (and growth opportunity) for many business leaders<sup>21</sup>.

Furthermore, no business leader can gather all the data, make sense of the complexity or have all the answers. So, tap into the talent and potential of your people. Invite your people take ownership for the business success, because it is their jobs on the line too.

Consider the following:

- Are executives clear about the risks we want them to take?
- What missions can we use to align everyone’s efforts?
- Are our decision-making criteria clear and applicable by all staff?

- What workforce capability to do we need to build (or access) to enable our future business?
- How can we equip our people to make decisions as if it were their business?
- Who should we engage to think with and coach our executives?

**Summary**

The dual health and economic crises triggered by coronavirus present the greatest challenge to our communities, governments and businesses since the Second World War. And as we emerge from the crisis, the challenges will likely exceed those going into it. Reforms will be necessary and will not be easy. There will be winners and losers.

For many it is a distressing time and the future can appear bleak. A desire to “get back to normal” can be coupled with the hope that the economic recovery won’t be too painful and future circumstances not so different to before. But hope is not a strategy. Nor is there room for complacency. We will not “return to normal”.

Responsible business leaders should get on the front foot. Change brings opportunity. Indeed, our current crisis provides an unequalled opportunity to refocus, declutter and energise businesses. For business leaders with ambition and vision, it is an immensely exciting prospect. There is reason to be confident, and confidence matter enormously to your investors, staff and the wider community.

While management teams deal with the immediate issues, it is up to directors to start to do the deeply thoughtful work in supporting the executive to reposition businesses for growth over the medium term. A good place to start is some powerful questions.

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