

the BULLETIN

Protiviti's Review of Corporate Governance

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Getting There Eventually: Finding Equilibrium in Uncertain Times

Part 1 – Build on Your Strengths

For those who have read just about everything concerning coronavirus disease 2019 (COVID-19) within their capacity and attention span to absorb, the lethal message is clear: This pandemic is unrelenting. It's not going away anytime soon, the threat to our health and economy is real, and the world in which we live, work and play has changed from what was familiar.

Most discussions concerning the pandemic aspire to a path leading to some form of normalcy, as in a “new normal.” The pathway is often framed in terms of phases, with each phase leading to an equilibrium of sorts. In other words, the state of equilibrium will be defined differently with each phase.

But achieving equilibrium can mean different things. For example, it may refer to a state in which opposing forces or influences are balanced, as in an environment in which our society must cope with COVID-19 for an indeterminable period, or at least until a critical mass of the population is immunized.

That state presumably applies to each of the phases defined by the applicable country's guidelines for reopening the economy.

Equilibrium could also refer to a situation in which supply and demand are in balance, as in the post-pandemic environment in which demand for products and services begins to expand and companies rebuilding their businesses position themselves to satisfy that demand through both pre-pandemic and new innovative channels. Progress to that state can lead to yet another form of equilibrium, a calm state of mind — a condition that is far from where our society is at present.

No one really knows how this transition is going to work since there is no playbook for a pandemic that literally shuts down whole economies. Expecting normalcy may be too ambitious, and it can imply an unrealistic state that's close to the way of life experienced pre-crisis.

More likely, a state of equilibrium will imply a different experience in which customer and consumer preferences, global supply chains, and the workplace are undeniably altered in ways requiring companies to refine their business models to remain relevant. As the transition from the crisis will occur in phases, it is reasonable to presume that the search for equilibrium occurs with each successive wave of change (i.e., what we are experiencing now and what we will experience soon, next and eventually).

Chasing a Moving Target

Finding these iterative states of equilibrium requires extraordinary agility and resilience. By definition, a pandemic, as it sweeps across the globe, disregards the borders of sovereign nations and the cognitive biases that influence our decisions. With guarded optimism, medical experts, scientists, policymakers, and other leaders at federal, state and local levels indicate we will reconnect with many of the societal privileges we once took for granted and even eventually find a vaccine. But, unfortunately, the exact timing of all this is unknown.

To be safe, we look to infectious disease physicians to provide leadership and guide our actions in this shared crisis. However, while these experts may be sensitive to the economic plight experienced by sovereign nations, states, businesses and individuals

around the world, the science driving their guidance to leaders and decision-makers may not be quite as sympathetic to economic concerns as many would like it to be. Thus, of necessity, companies will be called upon to react and adapt in this difficult-to-predict environment.

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The persistent uncertainty also presents economic dilemmas that will influence the recovery. As the pandemic subsides, certain sectors, such as healthcare and e-commerce, will rebound more quickly, while others like transportation and hospitality will need more time. As we hope to experience the desired “√” or “V” shaped rebound, we also realize that we may have to endure a slower “U” or “L” shaped recovery — or possibly even a “W” recovery, if the economy is reopened too soon and another setback occurs. So, the common denominator for all of us is that pandemic planning and readiness is now thoroughly seared into our consciousness. This is a hard-learned lesson, and our call to action as a society, as organizations and as individuals is to learn, adapt and plan for a more sustained equilibrium. In chasing a moving target, there is no other way.

A Fluid Current State

As COVID-19 is a “known unknown,” we question individually and as a society what the resolution is likely to be — or at least what the timeline may be for ultimate relief. These answers will not likely come in absolute terms. For example, how much testing is enough to address the risk of asymptomatic individuals? How long will the various phases of lockdown be? How soon will there be effective treatment protocols and the desperately needed vaccine?

While a pandemic is certainly unique as a “current state,” it’s important to note that the current state is ephemeral — and always has been. That is why the ability to anticipate issues and be resilient in acting on market opportunities and insights has consistently been a strong foundation for early-mover decision-making. But in these unprecedented times, the urgency is greater. Part of the challenge in our current environment is the complexity of sometimes unknown issues and the rapid response time required to survive and remain competitive.

The harsh reality for leaders making decisions in a shifting ephemeral current state is that they will be called upon to make tough decisions in tight time frames that affect their organizations and employees. These pressing circumstances make it imperative to have a centralized command center for executive management to view critical issues from “higher ground” to identify, prioritize and consider opportunities, risks and outcomes. As leaders contemplate the landscape, it is not enough for them to have big ideas about what should be done. It is also important for them to operationalize these actions decisively. Therefore, the governance

and oversight of the command center must inform and influence leadership decisions, including prioritizing executable actions and resource deployment for highest and best use as the current state inevitably changes.

As organizations emerge from the crisis, they face two questions:

- What should we do to find equilibrium?
- How do we strive for equilibrium again and again?

Organizational strategy must migrate from the plan that was the aspiration formulated in 2019 to the reality existing in 2020 and beyond.

To address these questions, organizational strategy must migrate from the plan that was the aspiration formulated in 2019 to the reality existing in 2020 and beyond. While the strategy likely requires an update, the business model may also need refinement and cash flow projections may warrant a revisit. What is most important is to reconnect authentically with the strengths that will support the organization’s resilience. Believing in and exploiting core strengths and acting with intention will help organizations focus on mission-critical actions and encourage a shared vision of what is happening now, soon, next and eventually. In this sense, equilibrium is the ideal state at which a company achieves its maximum potential, whatever the circumstances dictated by the marketplace.

As the market progresses through multiple phases until the eventual “new normal” is reached, the extent to which organizations prepare themselves to be agile and resilient will delineate those who thrive from those who merely fight to survive. We believe the most successful companies will build on and demonstrate the following core strengths.

Focus on Leadership and Culture: Emphasizing One Mission

A shared vision comes from the top. And while the COVID-19 pandemic may not be the first crisis faced by the CEO, executive team and board, its nature is unique in many ways. Employees need to hear from their leaders on a consistent and frequent basis about the current status of the organization’s operations and planned actions. This is necessary not only to understand the business and its needs but also to feel connected as an integral part of executing the strategy for seeking the desired equilibrium. It is a time for leaders to remind everyone what the company is about, including its core values and culture. Some employees may have weathered earlier crises. But for the rising generation, this is not the solid ground to which they are accustomed.

A strong and clear leadership message in times of crisis sets the line of sight for all employees on the desired end-state. Accordingly, the vision should emphasize the organization’s strengths

— its core competencies, superior talent base, differentiating digital capabilities, innovative processes, proprietary systems and distinctive brands — and how those strengths will help take it to a better place. People look to their leaders for optimism and hope, but they also want a message grounded in realism and substance, and they’re smart enough to know when it’s not. The company’s strengths offer that foundation.

All employees benefit from a strong and clear leadership message in times of crisis.

On this foundation, leaders should cultivate an innovative and agile culture for embracing change. They should articulate a compelling business case for being an adaptive organization, establish realistic goals and well-defined action plans, and set accountability for results. Through words and deeds, the messaging should focus on one mission and provide a clear view of a reality with which employees can identify. It should model desired behavior and convey good news as well as an honest assessment of challenges. The overall message should motivate and enable, because wise leaders know that empowered frontline employees can make the difference between success and failure.

Facilitate Employee Engagement: Making Symbiotic Times Possible

People are feeling the effects of social distancing and remote working in both positive and not so positive ways. Keeping employees engaged is a priority for their individual and collective well-being. Normalizing relationships in this remote work environment is an integral part of gaining equilibrium from an organizational culture standpoint.

Being connected maintains channels of communication to share information and insights, as well as emerging opportunities and issues. Staying connected holds employees accountable for being productive team members. This kind of connectivity provides a supportive work environment that is only possible through deliberate and defined engagement. For example, organizations should:

- **Provide forums for formal and informal communication to share information** — Offer multiple venues for engagement, recognizing that some employees may not be comfortable with videoconferencing or asking a question in a large remote meeting. Be inclusive by providing opportunities to convene in smaller teams to facilitate communication or obtain feedback through anonymous surveys.
- **Consider employee recognition for meeting goals or contributing to innovative solutions under fire** — Yes, measuring results is important, but especially at this time the teaming and creative thinking that encourage participation and achieve results should be emphasized.

- **Provide reassurances regarding the innate reluctance to gather in the future** — This is only one of the elephants in the room now, but it is important to acknowledge that employee safety will always be a priority.

Engagement of a diverse range of people in collaborative problem-solving offers a source of strength that empowers management and frontline personnel alike to act with intention in times of uncertainty. For example, whether applied to product design, process innovation or general problem-solving, design thinking techniques are a powerful employee engagement tool. They quickly surface everyone's views and opinions, force focused discussion and debate, and usually lead to collective decision-making. At the same time that they encourage disruptive thinking, they also support high-velocity, high-quality decisions and alignment of leadership across the company.

In a virtual environment, leaders must make and seek connections to the front lines of the organization to share ideas and information — and, most importantly, build trust. This includes embracing feedback from all levels of the organization to enhance employee engagement and support a resilient, symbiotic culture that will facilitate equilibrium as the organization moves forward.

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Apply Scenario Analysis: Planning for the Unexpected

COVID-19 is certainly a significant crisis, but there have been others in the past (e.g., the September 11, 2001 terrorist attacks in the United States, the 2002-2004 SARS outbreak, the 2007-2008 global financial crisis). And there will be more in the future. Given that reality, planning for “what’s next” is an expansive way of thinking to move forward in both the short and long term. Specifically, scenario planning is a useful tool to consider various inputs that are “known” or to combine those inputs with assumptions to model potential “unknowns” or even “known unknowns.”

For example, consider the variables around supply chain disruption in a post-COVID-19 world. What can happen that will disrupt a link in the chain, and how will the company respond if that disruption were to occur? Technology and advanced data analytics can be very powerful enhancements to simulating events — particularly, the failure of a critical business partner — to test the playbooks that the business has in place and/or use machine learning to work out, based on past actions, what firms have done when critical suppliers have been unable to meet demand. Thinking out of the box in this manner shortens the decision-making cycle down the road if, and when, the particular scenario transpires.

Organizations should consider multiple scenarios to evaluate the possibilities for change and consider when it is necessary to challenge the status quo, exploit market opportunities or take action to respond to emerging risks. Cascading scenarios with dependencies (if/then) can illustrate events as they can potentially unfold to consider correlating activities across the organization. Scenarios may consider

internal and external factors, both within and outside the organization’s control. They can be used to evaluate the unsettled landscape and provide options for decision-makers to execute with intention. To that end, it can be useful to set parameters around the scenario-planning process. For example:

- Key assumptions regarding customer/consumer behavior, alternative go-to-market strategies, sourcing of talent, supply chain configuration, regulations, and other drivers of revenue and cost performance, which are used to set a baseline model as a context going forward;
- Extreme but plausible internal and external events that could impact the above assumptions and the factors that would affect their likelihood of occurrence or severity of impact if they were to occur;
- Potential mitigation strategies and the actions needed to address scenarios having the most significant negative impacts;
- Strategies and options for capitalizing on positive scenarios giving rise to significant short- and/or long-term opportunities;
- Key variables, trending metrics and other relevant information to monitor whether high-impact scenarios have occurred or are occurring; and
- The velocity with which the business can pivot to address the potential change highlighted by the high-impact scenarios.

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Since no one knows exactly how the COVID-19 transition will play out, it is essential to evaluate alternative views of the future and use the added perspective to enhance the company's response readiness. Scenarios help management understand what could happen that might impact the success or failure of the business model. They help focus management's attention on the factors having the most impact on the fundamentals of the business. Organizations able to act with intention as an early mover at the speed of change enter the forthcoming period of uncertainty in a position of strength.

Develop Your Ecosystem: Building a Community of Resources

As organizations lean on their core competencies, their suppliers, distributors, customers and other parties comprising their ecosystem can be a powerful source of strength in adapting to the evolving marketplace. This ecosystem should be revisited from both a strategic and an executional point of view to ascertain partner roles and value creation in multiple potential scenarios. Each iteration of change reverberates in the organization's ecosystem, and a critical partner today may become a competitor tomorrow and vice versa. Even the roles and actions of regulators and policymakers are influencing the ecosystem.

So, it's important to look past traditional ecosystem relationships to recognize windows of opportunity to collaborate in new and different ways in the market and accelerate necessary redesign of the business model. In seeking equilibrium in the ecosystem

community, needs are changing and reasonable proxies similar to the 80/20 rule can illuminate thinking about available options that will move the dial in the best available direction, perhaps immediately, but also maybe for a reasonable period of time or to address a given scenario.

It is essential to be flexible but practical when considering options for teaming with a changing roster of collaborators. There is reward for accepting the risk of shifting paradigms that include the necessity of finding new ways to reach customers and to complete work, but it is also important to be wary. Organizations should prioritize the relationships that align with current and expected future scenarios and seek new collaborations to exploit opportunities and inspire innovation. Also, they should take steps to safeguard the existing supply chain while considering alternative sourcing and overseeing quality, cost and time performance of essential products and services.

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Think Disruptive Innovation: Committing to What's Possible and Practical

The pandemic is a humbling disruptive force that is challenging organizations to innovate. In fact, innovation is a powerful agent for achieving equilibrium. Determining what actions to take and what aspects of disruption to ignore are part of the alchemy of decision-making in this uncharted territory. Nimble organizations will be acknowledged and rewarded for seeing opportunity in the chaos. Some innovations will be short-lived responses to urgent gaps, while others will transition with the benefit of time and experience and influence business practices in the post-pandemic world.

Innovative thinking is always accomplished by both known and unknown factors. Brainstorming or design thinking will help in considering what is possible and what is practical. Looking at the organization with a new lens can refresh management's view of what is needed not only to survive but also to thrive in the future reality.

In thinking about disruptive innovation, companies should:

- Assess their digital maturity and take the necessary steps to advance their digital capabilities consistent with their go-to-market strategy, recognizing that digital leaders are, in the main, thriving in the current environment.
- Scrutinize their products and services based on current and anticipated demand and, with a relentless focus on the customer, concentrate on plans to pursue all possible sources of revenue, including exploitation of digital channels, creative ways to fulfill services when the end

product is not digital, and unconventional means of delivery to enhance the customer experience and/or overcome restrictions imposed by social distancing protocols.

- Consider their competitors and observe the plans they implement to differentiate themselves to ensure the company is not losing touch with the market.
- Plug gaps with reasonable alternative options, including accelerated research and development.
- Pilot or stress test new products and services and debrief on the results.
- Gain efficiencies through increased automation, deploy advanced data analytics to improve decision-making, and understand the costs (resources, financial and reputation) of pursuing, or not pursuing, identified options.
- Fail fast, admit mistakes and keep innovating.

In rapidly changing markets, it's all about "disrupt or be disrupted." This is a mindset that begins with the organization's culture and people. What's unique about transitioning to the post-COVID-19 world is the significant risk of clinging to the status quo. That's why disruptive thinking and acting with intention on market insights can be a powerful source of strength. Organizations have nothing to lose by thinking about disruptive innovation and everything to lose by disregarding it.

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Summary

Inspired leadership and an empowering culture, effective employee engagement, insightful scenario analysis, superior performing ecosystem relationships and disruptive innovation — these are all powerful attributes. Leveraging these strengths to act with intention enables a company to enhance its capacity to be resilient in an ever-changing environment.

The transition from the ephemeral current state to the post-pandemic world might be likened to a game of chess, with the added time sensitivity imposed by a chess clock. Companies in all industries will make their moves, place their bets, and focus on advancing the customer experience with new and enhanced products and services.

The market itself also will make moves, some gradual and some sudden, possibly at an unprecedented pace. The velocity of change may be such that only the most adaptive and agile organizations can flourish. Companies choosing to sit tight with an illusion based on false assumptions will lose time on the clock — until their time finally runs out.

Part 2 of this topic on finding equilibrium in uncertain times is “Resilience Is the North Star,” which we will address in the next issue of The Bulletin. Resilience is the means by which the organization’s strengths are brought to bear on the challenge and opportunity of embracing change.

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