

Lead Your Business Through the Coronavirus Crisis

Executive Summary

The economic impacts of Covid-19 are significant, and as the crisis unfolds, many companies are trying to understand, react to, and learn lessons from rapidly unfolding events. While the full impact will only be clear in hindsight, the authors offer 12 lessons based on BCG's ongoing analysis and support for our clients around the world.



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The Covid-19 crisis has now reached a new critical phase where public health systems need to act decisively to contain the growth in new epicenters outside China.

Clearly, the main emphasis is and should be on containing and mitigating the disease itself. But the economic impacts are also significant, and many companies are feeling their way towards understanding, reacting to, and learning lessons from rapidly unfolding events. Unanticipated twists and turns will be revealed

with each news cycle, and we will only have a complete picture in retrospect.

Nevertheless, given the very different degrees of preparedness across companies, the further potential for disruption, and the value of being better prepared for future crises, it's worth trying to extract what we have learned so far. Based on our ongoing analysis and support for our clients around the world, we have distilled the following 12 lessons for responding to unfolding events, communicating, and extracting and applying learnings.

1) Update intelligence on a daily basis.

Events are unfolding with astounding speed, and the picture changes on a daily basis. Only several days ago, it looked like the outbreak was mostly confined to China and was being brought under control. More recently, a number of fast-growing epicenters of infection have sprung up beyond China, signaling a new phase and potentially necessitating new strategies of mitigation rather than containment. Our team initially decided to communicate updates every 72 hours, but we moved to a daily cycle, not only for updating data, but also for reframing our overall perspective.

2) Beware of hype cycles /news cycles.

News organizations often focus on what's new rather than the big picture, and they sometimes don't distinguish between hard facts, soft facts, and speculation. Yesterday's news is likely to frame how your organization thinks about the crisis today. When exposed to fast changing information, be it a new technology or an emerging crisis, we have a systematic tendency initially to overlook weak signals, then to overreact to emerging issues before we eventually take a more calibrated view. As you absorb the latest news, think critically about the source of the information before acting on it.

3) Don't assume that information creates informedness.

In our connected world, employees have direct access to many sources of information. Leaders might reasonably conclude that there is so much information and commentary available externally that they don't need to do anything additional. We have found, however, that creating and widely sharing a regularly updated summary of facts and implications is invaluable, so that time is not wasted debating what the facts are — or worse, making different assumptions

about facts.

4) Use experts and forecasts carefully.

Experts in epidemiology, virology, public health, logistics, and other disciplines are indispensable in interpreting complex and shifting information. But it's clear that expert opinions differ on critical issues like optimal containment policies and economic impact, and it's good to consult multiple sources. Each epidemic is unpredictable and unique, and we are still learning about the critical features of the current one. We need to employ an iterative, empirical approach to understanding what's going on and what works — albeit one guided by expert opinion.

5) Constantly reframe your understanding of what's happening.

A big-picture synthesis of the situation and a plan to deal with it, once captured on paper, can itself become a source of inertia. A Chinese proverb reminds us that great generals should issue commands in the morning and change them in the evening.

But large organizations are rarely so flexible. Managers often resist disseminating plans until they are completely sure, and then they are reluctant to change them for fear of looking indecisive or misinformed, or of creating confusion in the organization. A living document, with a time-stamped “best current view” is essential to learn and adapt in a rapidly changing situation.

6) Beware of bureaucracy.

Controversial, sensitive, or high-profile issues will typically attract review by senior management, corporate affairs, legal, risk management, and a host of other functions. Each will have suggestions on how to best craft communications, leading to an overly generalized or conservative perspective and a slow, cumbersome process.

Assembling a small trusted team and giving them enough leeway to make rapid tactical decisions is critical. Overly managing communications can be damaging when each day brings significant new information to light. Use the clock speed of external events as a guideline for pacing the internal process, rather than starting with the latter as a given.

A living digital document can enhance speed by avoiding the rigamarole of issuing and approving multiple documents, and also reduces risk, since it can easily be updated or withdrawn as necessary. Furthermore, distinguishing clearly between facts, hypotheses, and speculations can help in communicating a fuller and more nuanced picture.

7) Make sure your response is balanced across these seven dimensions:

- *Communications:* Employees will likely be exposed to conflicting information and feel anxious or confused about the best course of action. Be sure to communicate policies promptly, clearly, and in a balanced manner. Furthermore, communicate contextual information and the reasoning behind policies so that employees can deepen their own understanding and also take initiative in unanticipated situations, such as employee holidays in a restricted location or how to handle contractors.
- *Employee needs:* Restrictions on travel and congregation will trigger employee needs for access to education, health care, daily provisions and the like. You should anticipate and develop solutions to these and create an information hub where employees can find all the information they need. Many of these needs will be locally specific, requiring a multi-tiered approach to policy making.
- *Travel:* Make sure that travel policies are clear in terms of where employees can travel to, for what reasons, what authorizations are required and when the policy will be reviewed.
- *Remote work:* Be clear on your policies — where they apply, how they will work, and when they will be reviewed. Home working is rare in some geographies, like China for example, and the need for additional explanation should be anticipated.
- *Supply-chain stabilization:* Attempt to stabilize supply chains by using safety stocks, alternative sources, and working with suppliers to solve bottlenecks. Where rapid solutions are not possible, co-develop plans, put in place interim solutions, and communicate plans to all relevant stakeholders.
- *Business tracking and forecasting:* It's likely that the crisis will create unpredictable fluctuations. Put in place rapid-reporting cycles so that you can understand how your business is being affected, where mitigation is

required, and how quickly operations are recovering. A crisis doesn't imply immunity from performance management, and sooner or later markets will judge which companies managed the challenge most effectively.

- *Being part of the broader solution:* As a corporate citizen you should support others in your supply chain, industry, community, and local government. Consider how your business can contribute, be it in health care, communications, food, or some other domain. Focus on the intersection between acute social needs and your specific capabilities — in other words, live your purpose.

8) Use resilience principles in developing policies.

Efficiency reigns in a stable world with no surprises, and this mindset is often dominant in large corporations. But the key goal in managing dynamic and unpredictable challenges is *resilience* - the ability to survive and thrive through unpredictable, changing, and potentially unfavorable events. Our research on resilient systems shows that they generally have six common characteristics which should be reflected in crisis responses.

- *Redundancy:* Access to additional manufacturing capacity can help smooth supply-chain fluctuations. In the short term, companies may need to look beyond normal sources for solutions, but in the longer term, redundancy can be designed in.
- *Diversity:* Having multiple approaches to fulfillment can be less efficient but more flexible and resilient in crisis situations. Equally a diversity of ideas can greatly enhance solution development. Put together a cognitively diverse crisis management team that will have more ideas about potential solutions, especially if the corporate culture encourages expression of and respect for diverse perspectives. Beware of treating the crisis in one-dimensional manner — as a financial or logistical problem only, and staff your crisis team accordingly.
- *Modularity:* Highly integrated systems may be efficient, but they are vulnerable to avalanches of knock-on effects or even total system collapse if disturbed. In contrast, a modular system — where factories, organizational units or supply sources can be combined in different ways — offers greater resiliency. When a key brake valve supplier for Toyota was burned to the ground some years ago, supply was restored in just days because of the

ability to swap production between suppliers, even of very different components. Ask how you can rewire your supply system in a modular manner both in the short and longer term.

- *Evolvability*: Systems can be built for optimization and peak efficiency or they can be built for evolvability — constant improvement in the light of new opportunities, problems, or information. Responses to dynamic crises like Covid-19 put a premium on evolvability. There is no knowable right answer, and any predetermined answer is likely to be wrong or to become obsolete over time. But it is possible to iterate and learn towards more effective solutions. While many lessons will be learned in retrospect, doing something now, seeing what works and remobilizing around the results is likely to be most effective strategy in the short term.
- *Prudence*: We cannot predict the course of events or their impacts for Covid-19, but we can envision plausible downside scenarios and test resilience under these circumstances. We can run scenarios for a widespread global epidemic, a multi-regional epidemic, and a rapidly contained epidemic, for example. Now that the focus has shifted from containment of the Covid-19 epidemic in China to preventing its establishment in new epicenters overseas, we have arrived at another inflection point, with very high uncertainty. It would be prudent for companies to take a fresh look at worst-case scenarios and develop contingency strategies against each.
- *Embeddedness*: Companies are stakeholders in wider industrial, economic, and social systems which are also under great stress. Those who fail to look at their supply chains or ecosystems holistically will have limited impact. Solutions that solve for an individual company at the expense of or neglecting the interests of others will create mistrust and damage the business in the longer term. Conversely, support to customers, partners, health care, and social systems in a time of adversity can potentially create lasting goodwill and trust. A key element of dealing with economic stress is to live one's values precisely when we are most likely to forget them.

9) Prepare now for the next crisis.

Covid-19 is not a one-off challenge. We should expect additional phases to the current epidemic and additional epidemics in the future. Our research on the effectiveness of organizational responses to dynamic crises indicates that there is one variable which is most predictive of eventual success - preparation and preemption. Preparing for the next crisis (or the next phase of the current crisis) now is likely to be much more effective than an ad hoc, reactive response when the crisis actually hits.

10) Intellectual preparation is not enough.

Many companies run scenarios to create intellectual preparedness for unexpected situations. Scenarios must be updated and customized, however, in the light of the most material risks to a business at any given time. Those risks have shifted even over the last few days, with the rise of new disease epicenters.

Intellectual preparedness alone is not enough, however. Something can be well understood but unrehearsed as a capability. Scenarios should therefore ideally be backed up by war gaming to simulate and learn from behaviors under stress. A war room set-up, with a small dedicated team empowered to decide and execute, can cut through organizational complexity.

11) Reflect on what you've learned.

Rather than heaving a sigh of relief and returning to normal routines when the crisis subsides, efforts should be made not to squander a valuable learning opportunity. Even while the crisis is unfolding, responses and impacts should be documented to be later reviewed and lessons distilled. Rapidly evolving situations expose existing organizational weaknesses, like an inability to make hard decisions or an excessive bias towards consensus, which constitute opportunities for improvement.

For example, airline safety is one of the most effective global learning systems we have in this respect. Each time there is an incident from minor mishaps to tragic accidents resulting in lives lost, root causes are investigated in forensic detail according to pre-agreed protocols, and binding recommendations are made. It's not surprising that flying has become one of the safest forms of travel, thanks to

cumulative learnings and adaptations from previous misfortunes.

12) Prepare for a changed world.

We should expect that the Covid-19 crisis will change our businesses and society in important ways. It is likely to fuel areas like online shopping, online education, and public health investments, for example. It is also likely to change how companies configure their supply chains and reinforce the trend away from dependence on few mega-factories. When the urgent part of the crisis has been navigated, companies should consider what this crisis changes and what they've learned so they can reflect them in their plans.

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