



Building a better
working world

Is your organization
prepared to respond?

Board alert: COVID-19

The better the question. The better the answer.
The better the world works.

79%

Board members
state that their
organizations are
not very well
prepared to deal
with a crisis-event

EY Global Risk Survey, 2020



This is going to be a
slow-rolling, highly
consequential event

Marshall W. Meyer
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The outbreak of the Coronavirus Disease 2019 (COVID-19) has stricken communities across the globe. The virus' rapid geographical spread has caught the world off-guard, with major implications for personal health, business continuity and the world economic order. Globally integrated supply chain models have been disrupted, threatening a financial slow-down.

Unfortunately, most organizations around the world are ill-prepared to navigate through these uncertain times. According to EY's Global Risk Survey 2020 - which surveyed 500 board members and CEOs across the world - nearly 4 out of 5 respondents stated that their organizations are not very well prepared to deal with a crisis-event.

94%

of Fortune
1000
companies are
facing **supply**
chain
disruptions

*Fortune Magazine, Feb 21st
2020*

This alert addresses the following questions:

1. How is COVID-19 disrupting organizations worldwide?
2. How should your organization assess and respond to COVID-19 related risks?
3. How can you lead your organization in these uncertain times?

How is COVID-19 disrupting organizations worldwide?

Organizations are facing multiple challenges: from the health and well-being of employees to disruption in the supply chain and from working capital shortages to complete closure of operations. Reports from across the world indicate that the following are emerging as areas of concern:

➤ **Health and safety:** Given concerns about the safety of customers and employees, theme parks, movie theatres and other public entertainment venues have suspended operations across Asia and Europe. Similarly, several companies have closed offices and factories due to regulatory lock-downs.

➤ **Workforce:** Aviation, retail, health, travel and other industries with front-line consumer interactions are already reporting higher than usual employee absenteeism due to panic and fear of infections. Many companies have enforced travel restrictions which are adversely impacting business operations. Even as some companies are allowing employees to work remotely, organizational effectiveness and productivity are being compromised.

➤ **Demand:** While demand for arts and entertainment, hospitality, travel and transportation has been substantially impacted, luxury goods, consumer goods, retail, energy and manufacturing organizations are also reporting a drop in demand, and therefore revising their forecasts. The International Air Transport Association has warned that falling passenger demand could cost the industry over USD 29 billion in lost revenues this year. Channel-preferences are also getting impacted. For instance, consumers oriented towards traditional channels are opting for online banking and e-retail, requiring companies to make immediate adjustments and extend transition support.

➤ **Supply chain:** In order to optimize cost, organisations have over the years built lean and concentrated supply chains, with limited flexibility. Several companies run on just-in-time inventory with high reliance on a few tier-1 vendors. Several such companies are facing stock-outs due to the closure of operations by suppliers, lack of identified alternate suppliers and closure of shipping routes. Organizations and service providers dependent on critical off-shore presence and third-parties are actively seeking alternate modes of working or new supply locations. One of the largest global manufacturers in Asia is idling its plants because of the lack of parts.

➤ **Legal obligations:** As a result of disruption in supplies, services and employee-absenteeism, several companies are staring at defaults on obligations. Insurance companies are reporting a significant jump in business interruption and event cancellation claims. A trade promotion organization in Asia has issued over 1,500 force majeure certificates as of February 2020, to shield companies from over USD 15 billion of legal damages.

➤ **Working capital:** Increased shipment time, falling production capabilities, deferral of purchases by customers combined with delayed payments are putting tremendous stress on the short-term capital requirements for companies globally. For instance, a European chemicals company has a high-value consignment on a ship quarantined in Asia with no clear timelines for its release. The company reported that the delay could materially impact its ability to manage financial commitments.

➤ **Cybersecurity:** Security monitoring centres in COVID-19 affected areas have been shut down, rendering several companies exposed. Many such companies have been hit by cyberattacks, compromising sensitive data. Further, cybercriminals masquerading as WHO representatives are sending fake COVID-19 email updates to bait users and steal confidential information.

➤ **Social responsibility:** In times of crisis, stakeholders look up to organizations to put people ahead of profits. Indeed, a number of non-life insurance companies operating in COVID-19 affected areas have enhanced benefits for those diagnosed with the virus. Several organizations are working with communities and extending support to those who need it the most. Such actions build trust, enhance reputation and create long-term societal value.

Upside of risk

While underprepared organizations have been hit hard, companies with robust resilience plans are finding opportunity in adversity by actively responding to market demand and increasing their market share.

Home entertainment and social media companies are seeing an uplift in revenues, as consumers prefer to stay indoors in many parts of the world. A video conferencing company has added more active users in the first two months of this year than it did in 2019 amid corporate concerns about the spread of COVID-19.

How should your organization assess and respond to COVID-19 related risks?



Assess



Respond



Monitor

» **Assess:** Assessments should focus on the current and future business impact under various scenarios. This involves a geographical segmentation of functions and activities, including people, supply, demand, capital, technology and compliance obligations at an organizational level. It also determines whether crisis-response and back-up plans exist, and the extent to which they are adequate and operational. Here are some key questions to consider:

- ▶ What is the impact on your people - quarantines, evacuations, travel and alternate working methods?
- ▶ How are your customers, suppliers and production capabilities impacted?
- ▶ What are the critical functions, processes and significant third-party dependencies, especially in impacted locations?
- ▶ What are some of the legal and contractual liabilities that could get triggered because of this event?
- ▶ What is the financial impact and how does it alter your short and long-term capital needs?

» **Respond:** Speed in decision-making is critical. Responses should consider actions to demonstrate social responsibility and take into consideration the potential impact on organizational reputation. This may also involve activating alliances and collaborating with industry bodies and peer groups to leverage insights and drive co-ordinated efforts. Here are some key questions to consider:

- ▶ Are you applying a people-first mindset focussed on the safety and well-being of the workforce, enabling them to work remotely and collaborate virtually?
- ▶ Are you establishing a crisis command team that is empowered to approve policy exceptions?
- ▶ Are you adopting strategies to rapidly fulfil capacity gaps and activate alternate channels to service customer demand?
- ▶ Are you communicating with your stakeholders, including employees, customers, regulators and public officials, in a trusted and transparent manner?
- ▶ Do your responses include both short and medium-term adjustments that you need to make to your business model?

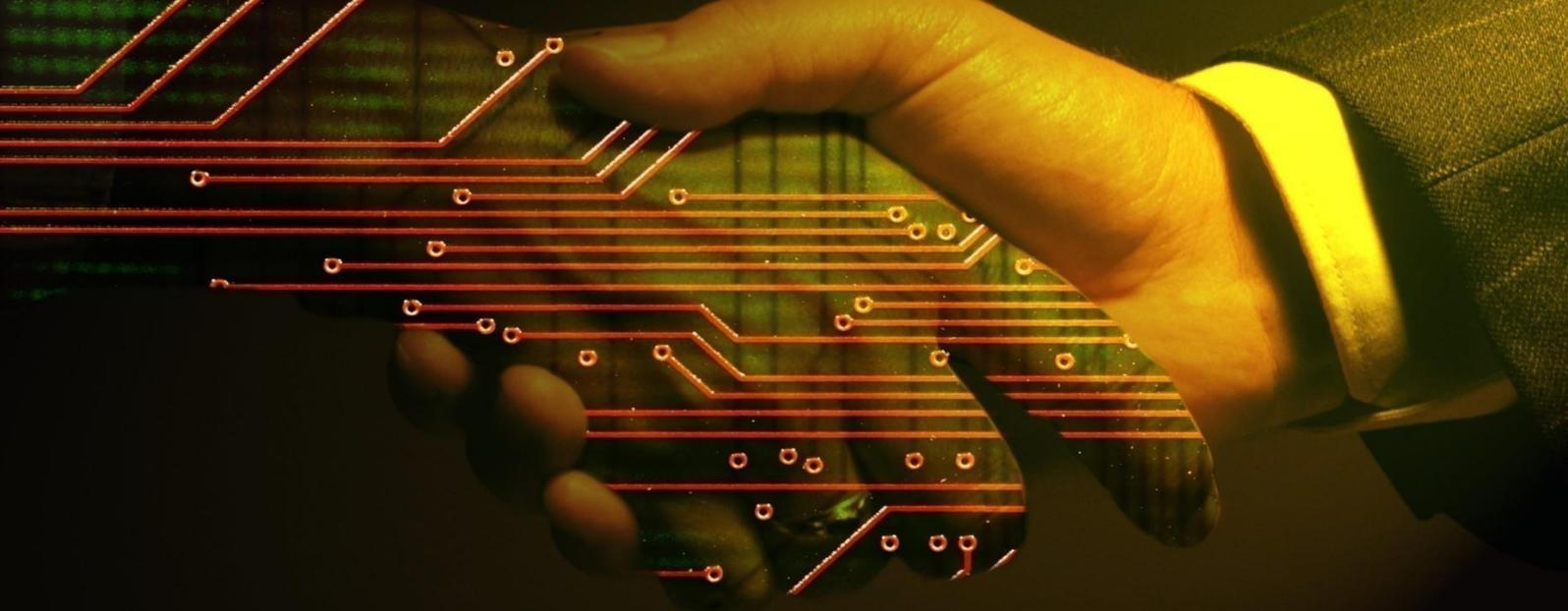
» **Monitor:** Organizations should adopt intelligent risk sensing to determine if their risk mitigation plans continue to be adequate and effective. Here are some key questions to consider:

- ▶ Does your organization have a risk intelligence mechanism to sense and identify risk scenarios?
- ▶ Are critical processes and controls periodically tested for operating effectiveness?
- ▶ Do you get periodic updates on new and emerging risks that could disrupt your business?
- ▶ How is your organization's risk management function adapting in the wake of the crisis?
- ▶ Do you review the results of resilience-testing and make recommendations for strengthening crisis-management plans?



Leading through uncertainty

- ▶ Ensure safety and well-being of your employees
- ▶ Create an empowered and cross-functional crisis command team
- ▶ Rapidly assess impact on employees, customers and suppliers, along with financial, commercial and legal obligations
- ▶ Engage with employees and other stakeholders in a trusted and transparent manner
- ▶ Activate strategies, including alternate channels, to quickly fulfil capacity gap and service customer demand
- ▶ Secure funding to bridge working capital gaps
- ▶ Reassess business forecasts and trigger regulatory disclosures, as appropriate
- ▶ Plan for future contingencies based on risk intelligence, scenario planning and economic modelling
- ▶ Consider support to communities and those impacted by COVID-19



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Disclaimer:

All statistics in this article are dated as on March 2020 and may change. EY has quoted sources, where applicable, and has not performed any independent validation of the stated data. This alert is not prescriptive in nature. Each organization should conduct its own evaluation prior to taking any action.