

## Board Briefing Series

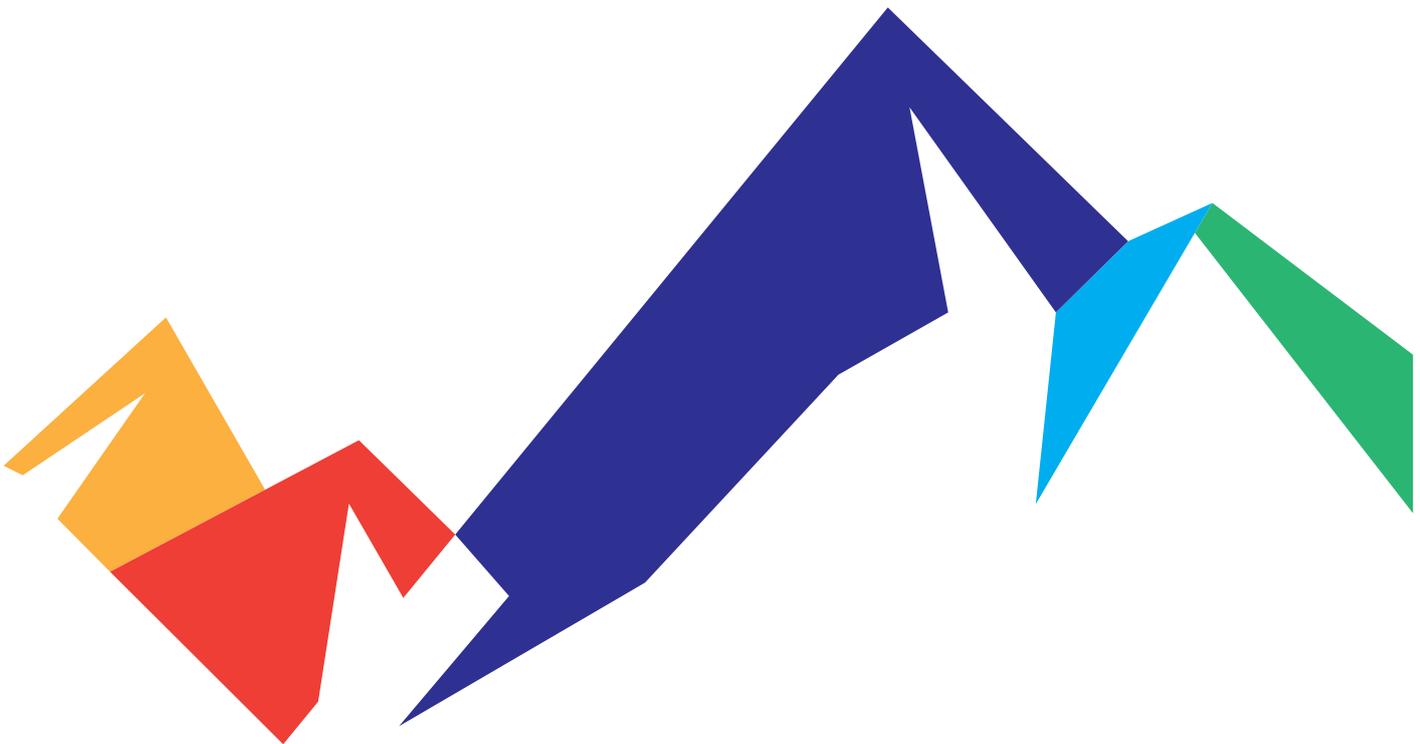
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# Board Composition for surviving Covid-19

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This article is one of a series of Board Briefings that consider the various challenges and opportunities facing directors which result from the turbulence for business caused by the Coronavirus Pandemic. It is written from our perspective as turnaround investors who have the benefit of objectivity and the desire to ensure that any businesses we invest in will both survive and grow.



Over 30 years' experience of backing  
directors by investing in their business

## Executive Summary

Covid-19 has brought about significant uncertainty for businesses. It has exposed the weaknesses in business models, led to the collapse of some companies, and created opportunities for others.

Boards need to not only ensure their companies survive in the short term by managing tactically, but must prepare and position their business for long term success by thinking and resourcing strategically.

### Board composition and surviving Covid-19

**In any changed market situation, emergency or otherwise, there are winners and losers. Not since the second world war (1939-1945) has there been global disruption on the scale caused by the Coronavirus. The WTO has forecast that world trade could fall by between 13% and 32% in 2020, depending on assumptions about the length and severity of the Coronavirus Pandemic.**

Unusually, there is no shame for a board of directors to admit it is in unfamiliar territory in facing a financial and operational crisis that will require radical decisions. The board that had been well composed with experience to thrive in normal market conditions and has worked effectively as a team to drive profits based on productivity and efficiency is now likely to be feeling unsure about the company's future and possibly experiencing personal anxiety.

The key issues the board needs to face about surviving the crisis are discussed below and in more detail in future K2 Board Briefings.

Equally important however is one of strategy and how the board positions the business for a new 'normal' and crucially how it takes advantage of the changed circumstances.

### Turnaround approach to dealing with a crisis

**There is no standard approach to turnaround where every situation is unique, every business is different and a surprisingly diverse array of solutions and tools are available and have been used successful for other companies. No one approach applies to all turnarounds.**

What is common to every crisis and turnaround however, is that the current situation is not desired and needs to be addressed. The concept of a bridge can help where the first step is to be realistic about the current state of affairs and to consider your options for achieving the desired outcomes.

This approach provides a framework for identifying the preferred options and building a bridge from the current situation to preferred option.

The bridge analogy applies to both restructuring the balance sheet and to reorganising the trading activities which in turn impact on the balance sheet via the profit and loss and cash flow.

As for the making and implementing decisions for building the bridge, the restructuring and recovery plan is likely to involve many and myriad improvement initiatives which can best be thought of as reviewing and optimising every line item on the trial balance.

### Surviving a recession

**Notwithstanding the unique impact of "lockdown" and enforced business interruption there are some key learnings from past recessions. Some of these require bravery and may seem counter-intuitive, and will be covered in more depth in future K2 Board Briefings.**

Briefly, keep marketing, maintain close contact with customers, hold your prices by adding value and not discounting and take any support funding that is being provided by government to mitigate the downturn (cash is always king).

Do all of this before the perhaps natural inclination to drastically cut costs. When cutting out waste, take care to ensure marketing and customer engagement is maintained. There is little point in maintaining sales capacity if demand is stifled or you cut off lead generation.

Finally, resist the temptation to focus exclusively on short-term necessity but rather focus on the business model and future strategy. Success will not be achieved by panicking but instead by thinking rationally and behaving strategically.

### Government support initiatives

Having enforced a policy of “lockdown” HMG have provided emergency support for business in the form of tax payment deferrals, business rates relief, grants, subsidised government guaranteed loans, and furlough payments. All of these are temporary measures aimed at retaining staff and maintaining business so they can resume at something like normal once lockdown measures are eased and social interaction is resumed. The measures are not intended to support already distressed business or to provide on-going support.

It is essential for board directors to review, challenge and radically revise their business plans if they are to survive and thrive whatever the new normal will be.

Whilst a minority of businesses are experiencing a Coronavirus boom, most face a near total collapse in cashflow and an extended period of reduced profits unless they can quickly and effectively adapt to the new market conditions.

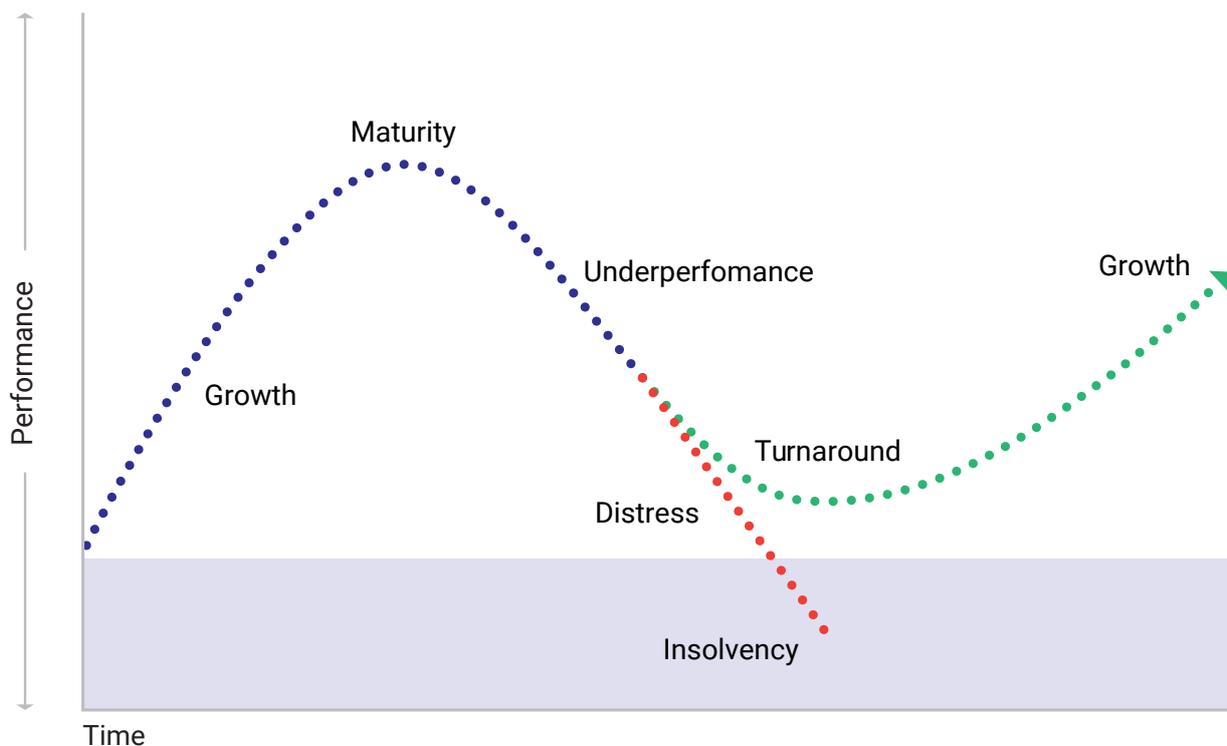
### Sudden drop in demand

The well understood growth, maturity, decline life-cycle is factored into most business plans, but almost no one was prepared for sales to drop off a cliff.

The Coronavirus Pandemic has plunged many businesses at all stages of the life-cycle into insolvency requiring immediate action to arrest the sales decline.

Arresting sales decline and identifying growth opportunities involves some radical thinking but it can be done.

Two recent examples at the beginning of the Coronavirus Pandemic are a bakery that immediately switched from supplying restaurants and hotels to supplying small retail chains, farm shops, other home delivery companies and setting up its own high street market stalls; and a mobile shower and washroom facility rental company that switched from supplying music festivals and sporting events to supplying hospitals and distribution centres.



## Managing stakeholders

**One of the key challenges when managing a financially distressed business in a crisis and through the recovery programme is the management of stakeholder expectations.**

It is necessary to decide what to communicate and then to adopt a rigorous approach to the managing the messaging process. This is best done by top managers communicating regularly so everyone hears from them directly.

Communicate clearly and often with key stakeholders. It will reassure them, keep them abreast of what is being done and build confidence. It is also imperative to only promise what can be realistically achieved and to set expectations that can realistically be exceeded. The role of the board and business leadership is to deliver the message; it is vital that this is done by the directors in person so they establish credibility and gain the support of all stakeholders.

## Surfacing the best ideas

**The best ideas need to be harnessed from the brightest people in the organisation and shared throughout the stakeholder community, ideas should not exclusively be those of the business leaders. Everyone needs to feel engaged and valued.**

It is often the case that the simplest and lowest risk solutions come from colleagues at the operator level who are not burdened by the received wisdom of leaders who often think they know best. Indeed some humility in soliciting ideas is likely to garner support from junior staff, most of whom will want to save their company, and their jobs.

Key to success is having access to board experience of similar situations, to those who are used to dealing with a crisis and who have developed and implemented a restructuring and recovery plan. This involves experience of many disciplines. If any of these are absent, they must be brought in, at least for the short-term, to get through the crises and establish a path to recovery.

## Iron grip on costs

**The idea of cost reduction is the first area of focus for most business leaders in financial distress. Yet, cost reduction programs are notoriously difficult to implement and maintain with few ever achieving the anticipated savings.**

Implementing a cost reduction program in a way that does not destroy earning capacity is even more challenging and doing so in a sustainable way is harder still.

Without specialist help fewer than 10% of organisations achieve consistent cost reductions by an average of only 60% of the forecast savings. In other words, even effective cost reducing management teams leave 40% of the identified savings unrealised. The reasons for the shortfall include insufficient planning, little commitment to and ownership of the cost reduction initiatives, a lack of clarity about who is responsible for them and insufficient ambition in the reduction targets. Managing these is key to every turnaround since change relies on an alignment of interests and implementing initiatives.

## Effective Board leadership

**The key difference between a small challenger and a large established player in the same market is their leadership.**

A challenger in all likelihood begins with a lone individual or a tiny undiversified team, whilst a successful market leader has a full, experienced and well-balanced team of experts.

When the market changes radically, as it has with the Coronavirus Pandemic, the market leader only maintains its advantage if already has, or brings in, the necessary experience and expertise to deal with the changed conditions.

## Decisive action for a sustainable future

**The foundation for a successful turnaround is a clear and well-defined restructuring and recovery plan driven by directors who are confident it can be achieved based on having done so (ideally multiple times) before.**

The bridge analogy is a useful starting point and will require stakeholder buy-in, clear communications and decisive action to implement the plan followed by rigorous discipline in both achieving targets and measuring results.

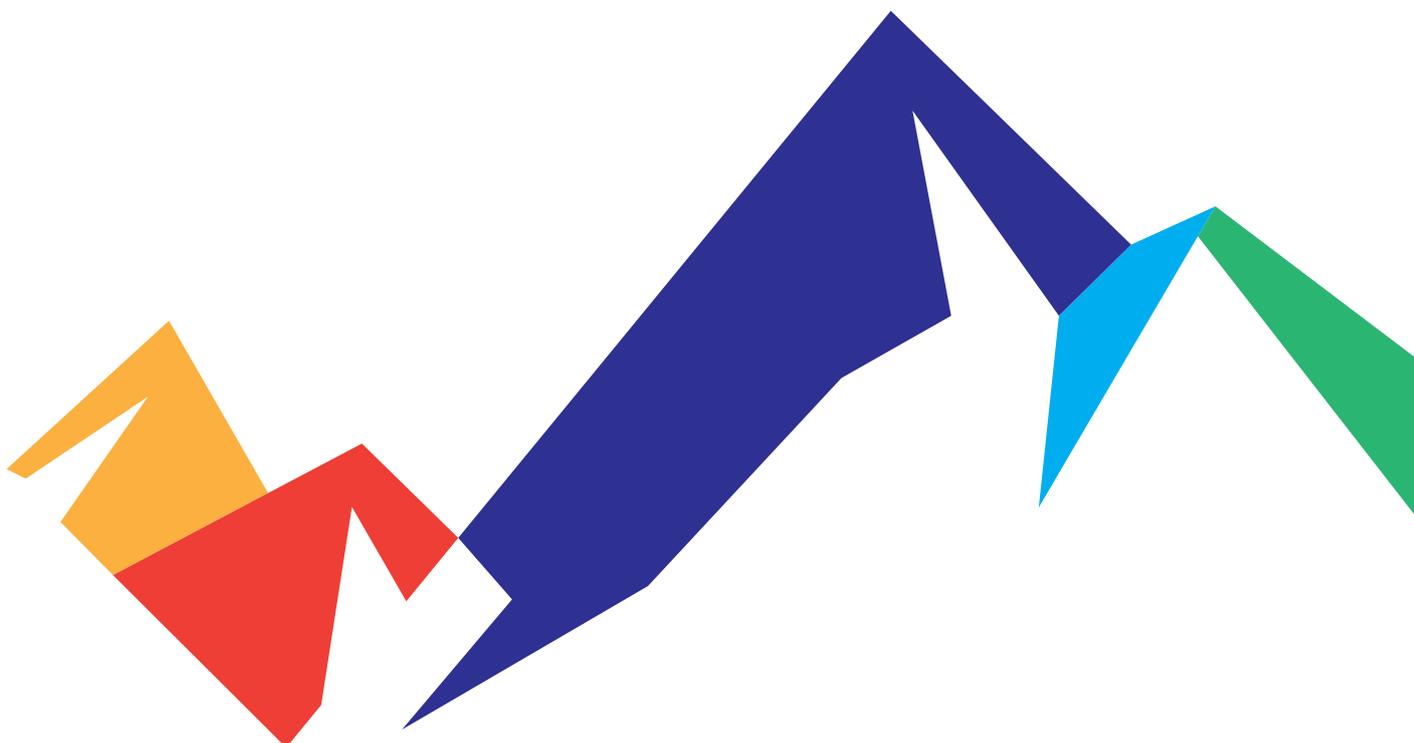
The Government Assistance is like your NHS ventilator, it is there to keep your business alive for a brief period. Reflect and plan for survival by acting decisively.

Do not delay in matching the experience within your board to the radically new "normal". The demand for business turnaround experience and knowledge of the specialist business survival tools is massively outstripping supply.

## Questions for the Board

Are we sure our team is balanced with sufficient experience to survive the current situation?

Are we thinking strategically enough about a future beyond the immediate crisis?



### About K2 business partners

Trading as **K2 business partners** since 2001, we are turnaround investment partners, each of us with over 30 years' experience of backing directors by investing our time and expertise in the turnaround of their business and the realisation of business value.

We focus on companies with £5m-£20m turnover led by committed boards and with assets that other investors find difficult to value.

K2 invests in companies that manufacture and supply house building and construction products and services; IT & technology service providers; database, branded and intellectual property businesses; and industrial manufacturers.

For more information visit [www.k2-partners.com](http://www.k2-partners.com)

Are there any topics you would like us to cover in our Board Briefing series? Please let us know at [info@k2-partners.com](mailto:info@k2-partners.com)

