

Podcast:

Building corporate resilience in the time of COVID-19



Transforming Business - Season 2, episode 2: **Building corporate resilience in the time of COVID-19**

The global pandemic has tested the resilience of organisations in **every** corner of the Australian economy. So, what have we **learned**? And are we **ready** for whatever comes **next**?

Hello, and welcome to our podcast ...

Transforming business with MinterEllison: ideas and challenges that are shaping our future.

Even before COVID-19, Australia was in danger of breaking its decades-long record of unbroken economic growth. But nobody expected it to end this spectacularly.

The pandemic has tested the resilience of organisations everywhere. Entire industries that seemed in rude health just a few weeks ago have been brought to their knees, while others have quickly had to scramble to satisfy a sudden surge in demand.

One leader who has seen these extremes first-hand is Anne Ward. In her governance roles spanning superannuation, education and online retail, Anne is helping steer Colonial First State, RMIT and Bed Bubble through wildly contrasting challenges towards a stronger future.

To find out the inside story, and hear Anne's reflections on where Australia goes from here, MinterEllison partner Michael Hughes caught up for a virtual chat...

Michael Hughes

Thanks very much Anne, for agreeing to do this. It's wonderful for us to engage in this way. My first question for you is - it's just been an amazing year - this is a crisis like we've really not seen before. Going forward, what do you think the economy's going to look like in the next three to five years?

Anne Ward

Well, there's a couple of ways I could answer that, Michael. I think at the moment, it's really hard to forecast the next three to five months, let alone the next three to five years, but I'll have a go.

First, it's important to remember that the economic impact of the pandemic is essentially a demand shock. It's not a crisis in supply. There have been some supply chain weaknesses exposed, but it's largely demand driven. Demand has been taken away due to the lockdowns and travel restrictions and the response to the health crisis. That's a bit unusual for economic crises and you might expect, well, classical theory would tell you when you bring back demand, when those restrictions ease, the economy will bounce back.

A few months ago, there was lots of discussion about a V-shape or a W-shape recovery and how quickly we would get back to where we were before. I think though that as this has unfolded and as the rolling and indefinite nature of the health crisis has become clearer, there's a lot more uncertainty in the economy and in the predictions for the economy and I think that uncertainty creates a lack of confidence. Business confidence and consumer confidence have significantly eroded in the past few months. My feeling is that the recovery is not going to be as quick as we might have thought and it's not going to be linear.

Michael Hughes

That's interesting. Tell me more about that.

Anne Ward

Talking about the Australian economy, I think in three to five years, we will be on our way to recovery, but we will not be fully recovered. The economic crisis has impacted different industries in very different ways. At one end of the spectrum, you have aviation, travel, you have businesses, particularly small business that rely on their own foot traffic; you have education. All of those have had a very, very significant and rapid and negative impact. So cashflow essentially went to zero overnight and forward bookings evaporated. At the other end of the spectrum, you've got some businesses and some industries that have really thrived through this. There are businesses in technology - anything to do with online e-commerce has actually really benefited from what's happened. So in those areas, clearly the recovery will be quicker. So to summarise, it's really uncertain that in three to five years, we're not going to be back where we were at the beginning of 2020.

Michael Hughes

You must've seen that difference across the portfolio of companies that you're associated with, Redbubble, RMIT, Colonial First State, all in different parts of that pattern that you've just described.

Anne Ward

Absolutely, Michael. In fact, just in those three companies, there's a really broad spectrum of impacts. Maybe I'll start with Colonial First State, which is essentially a superannuation and wealth platform investment business. The first impact for the Colonial First State was probably in March. When the lockdowns began, our first and urgent concern was implementing our business continuity plan. We've got 2000 staff, how did we rapidly get them all working from home, working remotely? What were the critical or essential roles that had to continue to have access to the offices? We've got a very large contact centre for more than a million members and investors. How do we get that operating remotely?

I've got to say, the team at Colonial did an awesome job in getting the contact centre working from home in a couple of weeks. When, if we'd ... probably, if we'd decided that before this, we'd like to do that, the answer would have been, "It's impossible," but even of course we did it because we had to.

Michael Hughes It required a rapid response. So what did you do next?

Anne Ward The second bit that was happening for an investment business was the market dislocation that occurred in March and April. We saw very rapid falls in asset values. There was a lot of activity with members and investors switching between investment options. Interestingly, the switching volumes went up, which meant a lot more work in administering and implementing those switches. Interestingly, compared to the GFC decade ago, the pattern was different. We saw only about 40% of those switches into cash. More than 25% of the switches were into equities, which tells me that members were taking advantage of buying opportunities and perhaps reflecting a longer-term view of how the markets would recover. So that was the first piece.

The second piece, obviously, with the enormous volatility that we saw in that period, was that there was a lot of work being done, closer monitoring of liquidity and investment risk in our portfolios and in our investment funds. That was the second piece.

The third piece for Colonial was the targeted government interventions that we saw. There were two of those. There was, firstly, the temporary reduction in minimum pension payments. That was implemented in April ... that was announced in April and had to be implemented by the end of the financial year, I think, was the timeframe. But for clientele, that was a big deal. We pay more pensions than any other organisation in the country after the Commonwealth government, we've got a quarter of a million pensioners. So, there was a lot of work, a lot of communication with members and a lot of admin required to implement those changes.

The second government intervention, which is continuing, was the early release program for superannuation. Under that program, superannuation fund members could take 10,000 out of their accounts during FY20 and they could take another 10,000 for FY21. So, by August, this has all been reported in the industry level by APRA. There has been more than 3 million applications under that program from more than 2 million unique members and more than \$32 billion paid out of the superannuation system under that program. At Colonial, we've paid out about 1.3 billion to date. I won't go into the operational complexity and the rapidity with which we had to figure out how to implement that, but that was a lot of a lot of work.

Michael Hughes What was the impact of that?

Anne Ward I think overall, that program has provided much needed emergency support to Australians in hardship, but it's also awakened a lot of super fund members to the fact that their superannuation is not just a number on the annual statement, it's real money and it is their money. I hope in the longer run that leads to greater member engagement.

There were three very important impacts on the Colonial business, but in terms of what we do and how we continue, there's not been a real impact on the long term business model.

Michael Hughes It'd be a different story at Redbubble, of course, so what happened there?

Anne Ward Redbubble is an online retail marketplace. It's a marketplace for independent artists. We create products, essentially, a print on demand type business. At Redbubble, we have benefited from the rapid acceleration of that trend towards online retail. In March, there was a dip. I think the whole world paused for a couple of weeks, but from April, it's been a very steep growth trajectory just in terms of how the company was perceived in March. The company is listed on the ASX; the share price got down to 40 cents in mid-March, as that kind of collective intake of breath was occurring. Today, the share price is 3.75 and the company has just gone through a billion-dollar market cap. So that gives you an idea of the volatility that we've experienced and the growth that the business has experienced - very rapid growth. So, we've had to digest that growth in an environment where everyone is working from home, working remotely. Redbubble's a global company, more than 90% of our revenues are offshore. We have offices all around the world, fulfillers and offices. And with travel going to zero, that's been incredibly challenging. Overall though, for Redbubble, the impact has been positive because it has accelerated that trend online.

Michael Hughes	How did you respond at RMIT?
Anne Ward	For RMIT, the crisis began in January when we realised that there were difficulties in international students joining us for the commencement of terms. Usually by late January, early February, students are arriving, and that was the time when there were travel bands imposed for China and then progressively for other places until the borders were closed. That rapidly escalated through February and March to the point where we had to shut down our city campus. The Vietnam campuses had already been shut down by the Vietnamese government.
Michael Hughes	What were some of the challenges that came with that?
Anne Ward	<p>We had to switch to a fully remote learning and teaching environment. We had large cohorts of international students who physically could not get here. Then we had to move the whole workforce to a remote environment. So there are technological challenges with that, there were massive challenges for our academic staff who, they hadn't been used to teaching remotely. For some of our operations, some of our vocational education courses, we have apprenticeships, plumbing, for instance, it's really hard to do that online. For a range of courses, there have been a whole lot of workarounds.</p> <p>So that was the first piece. The second piece of the financial impact for RMIT, as for other Australian universities, has been very significant. The revenue from international onshore students is much higher than domestic students, and so a small proportion of students not arriving had a disproportionate impact on revenue. For RMIT, we've projected our revenue for calendar 20, we'll be down about 175 million, and we're forecasting a further 125 million reduction for calendar 21.</p>
Michael Hughes	It's been an extraordinary time, hasn't it? How did you react to that?
Anne Ward	<p>A lot was done in the early phase to stop discretionary expenditure, to do a range of things, but we still need to find cumulative savings of about 200 million. In a university, a lot of your expenses are people, and the human impact of this is devastating. Universities have not been eligible for Jobkeeper. That was deliberate. There was a lot of discussion about it, but that's where we've ended up. At RMIT, we've just completed a voluntary redundancy program. We just closed the program, rather, which has resulted in 355 employees that will be leaving the organisation, and with that, I think, we'll have annual savings of about 48 million, but clearly more savings will be needed.</p> <p>We are also looking ahead to what the new normal will be for the business model, because we believe there are fundamental and permanent changes in the structure of the higher education business model in Australia. So we are looking ahead and undertaking a very deep review of the university strategy to figure out what we need to do to adjust to the new world, what changes are we going to need to make in the operating model to survive and thrive and what will the new world look like, and that work is underway.</p> <p>I should pause there. I feel like I've gone into a lot of detail, but by chance, my three main boards at the moment have really spanned the spectrum of impact from COVID.</p>
Michael Hughes	<p>It's an extraordinary hard affect with what's happened in the pandemic and that has been real to us probably for a little under six months, but as you articulated, is going to continue for quite a period of time, or at least the economic impact. They are just amazing insights.</p> <p>We've tagged this about 'building resilience'. My reflection on this is that resilience has sort of, what's traditionally regarded as a sort of a feature, a personal attribute, but increasingly we're seeing it as a word that you can use in a corporate and a commercial context and also around organisations, including government. It means, I think, probably much more than just financial strength, which is I think probably in the post GFC environment, everybody focused on the impact that this pandemic and the crisis is having on people is very, very apparent, and the fact that I think organisations and governments are frankly putting, in my assessment, those concerns at the forefront of the way that they're responding, with the financial coming a very close second</p>

nonetheless. At the moment, this seems to be a real feature and a point of distinction between now and the GFC.

I think it's perhaps because of the health aspect of it, but we're seeing this through a filter. It's not the impact of some sort of strange financial disturbance offshore. It started with people and their health. We're seeing the impact on health with people working from home; mental health is becoming an issue.

So, resilience for organisations we're starting to think about, expands across all of these different perspectives. From your perspective, as a leader and a Chair of boards, how does this this resonate with you and the way that you interact with your organisations and your fellow board members?

Anne Ward

I think you're spot on, Michael. This crisis, because of its nature, has focused many minds on the breadth of operations of companies and the fact that resilience is not just about financial ability to survive and thrive, it touches every aspect of your operations. That's not new, but this sort of health crisis and the economic crisis has brought that home, I think, to companies in a very immediate way. So the discussions that I'm seeing around resilience really cover every aspect of the company's operations. There's obviously the financial strength, the strength of the balance sheet, the cash flows, but leave aside 'will there be money to invest?' and how the operations will continue from a financial perspective. But then people would be absolutely up there, if not ahead of financial, a very, very close second.

The ability of your staff to be resilient, to work in different ways, to find different ways of engaging with each other and the obligations of companies to look after their staff, in an environment where we don't actually get to see them: how do we look after their mental and physical health and wellbeing in this kind of environment? Companies are also thinking about the resilience of the business models. So, I talked with RMIT about well, should the business model, must the business model, change to adapt to a new normal? A lot of organisations are really thinking that through. The resilience of your...or your thinking about customers and what their loyalty will be like through this kind of environment. Will they be there at the end of the crisis? Will customer habits change?

I talked about Redbubble where we are seeing a lot more people, through necessity, buying stuff online. Will they go back? We don't think so, not all of them. Some will go out to shopping malls when they can, but we think there have been structural shifts in shopping habits, for instance, for consumer goods.

I think companies are also thinking much more deeply about the resilience of their leadership models. What are the leadership capabilities in terms of people leadership and visionary leadership management in this environment? How can leaders be more visible to their people, maintain the same engagement, different behaviours, and different rhythms of communication are required? I think also, companies are thinking about the resilience of the governance model.

Michael Hughes

So, what does that mean the board directors?

Anne Ward

The way boards are operating and have operated through the crisis has changed. I couldn't say how enduring some of the changes will be, but I've no doubt there will be some engineering changes. Just as an example. I mean, through over the last six months, I think it's fair to say, or certainly for my boards, there have been much more frequent meetings, sometimes weekly.

Boards are working much more closely with management, as you would expect during a crisis. There's been a need for much more rapid and clear decision-making, sometimes with very imperfect information. The flow of information to directors has been reviewed. I think on all of my boards, we've introduced new methods of flash reporting or headline reporting of certain issues. I spoke about the early release program in Super, so for a period at Colonial, we were initially getting flash reports twice a week on how that program was evolving and how, operationally, we were meeting the needs. Also, I would say the need for boards to be more visible, which is strange, but it's similar to what I said. With the leadership in the companies, board members are much more frequently being involved in town hall type broadcasts and discussions and being, I think, more in touch with the employees.

Michael Hughes	Do you think we're starting to bake in some habits along those lines? I'm certainly seeing it more and more, and I think people are welcoming it. There's a little bit of Zoom fatigue, but all in all, I think people are enjoying seeing probably more of their leaders in a more regular way.
Anne Ward	I think so, and I think that's one of the aspects that will endure. You talk about Zoom fatigue, and I'm certainly feeling it. I do think we will see some permanent changes in how companies operate. There'll be more flexibility in where people work and how often they come into the offices, but I don't believe that we will say, "This is wonderful, we can all now go and live in Broken Hill and work remotely." I don't think that is going to be sustainable for the large majority of the workforce. I think we'll see people working from home more frequently but not totally, for a whole range of reasons.
Michael Hughes	I guess the other factor that we've seen, is we've seen our governance step up in different ways because, I suppose, when it does start with a health crisis, the natural expectations of the communities is the government, this sits squarely with the government, and then moving promptly to financial support programs. It's an interesting trend when you sort of think about where the dial has moved towards whether as a community, we are going to be more dependent on government increasingly, the government to help and sort of move away from that trend we saw some time ago, which was saying governments, sort of, get out of the way. I wonder if you had any thoughts about that?
Anne Ward	<p>Yeah. Well, it's a fascinating topic, Michael. I think ... I remember back in March, one of the very early public statements from the prime minister, he spoke about the fact the country was facing two crises. One, a health crisis, and one, an economic crisis. And the need for government response would be to balance those two things. I'll come back to whether these two or actually more crises that we're facing, but as I look at what has happened, I think some aspects of some of the responses that we've seen in Australia have perhaps not got the balance right between those two things. The longer-term impact of harsh and protracted lockdowns is not well understood. Personally, sitting here in Melbourne, there will be impacts that we will feel for long time. Impact on social cohesion, on economic growth, on community wellbeing, on work, on business resilience, that perhaps have been underestimated in the short-term response to the health threat. Major reactions to a crisis are okay, but that's in the short term.</p> <p>Over the longer term, and this crisis is clearly becoming a much more protracted long term event. Over time, you've got to introduce a much more nuanced and carefully thought through solution. Time will tell how our public policy making landscape might change. I do think that the damage ... there can be irretrievable damage done to various aspects of society through protracted harsh lockdowns that may not be proportionate to the nature of the health threat that we face. Those impacts can be not just on our economic recovery, as I said before, but on a whole range of factors that are important to how we live our lives and how we want Australian society to operate.</p>
Michael Hughes	Yeah, it is really difficult to say. You made the point at the start where you were mentioning, earlier on you were mentioning, that people were making decisions at the start based on imperfect information and making them quickly. I think people responded well to that happening, people just saying things have to be done and then if we've got this wrong, we can recalibrate. But I think what you're saying is we're now starting to move to that second place where having made those decisions with imperfect information, more information is becoming available and therefore you can start to make better informed and more carefully nuanced decisions, and I think that's definitely right.
Anne Ward	I actually think there are ... I think of it in three phases. I think the first phase is what I think of as survival. I think companies and governments all our institutions were in survival mode in that first phase, which is about, for companies, you know, can our business survive? What are we going to have to do to survive? What discretionary spending can we cut? What opex can we cut? Do we need to raise capital, husband our cash? All of those things, you know, survival mode. How do we look after our people? How do we continue to be able to run the business and look after our people?

The second phase is what I think of is re-imagining. It's sort of like, okay, what's the shape of this and the duration of this crisis? How do we find balance between that short term cutting and survival, versus we may need to sustain this kind of high alert situation for a long period, how do we adapt to that? How do we imagine, what does the company need, what does the country need to look like going forward? If this is going to continue for it for a long period of time, what are the changes to our business model that are going to be needed? What are the changes to our public policy settings that are going to be needed?

Then the third phase, which we haven't got into yet really, is what I think about as transforming. That'll be over an even longer and more considered timeframe, actually making those changes that are going to be necessary to thrive in the new world. We don't even know what the new world is going to look like yet so we're still in that re-imagined phase. I think some companies are moving into that transform phase and they're making strategic choices now that are going to transform their business to thrive in what they think is going to happen. I don't think at a government level, we are yet in that phase.

Michael Hughes Before we wrap up, are there any closing remarks?

Anne Ward Resilience, I think, is a great topic to be discussing right now, Michael. We are still very much in the middle of this crisis and it will continue to unfold slowly. What we thought of previously as resilience is being tested in ways that we could not have imagined even six months ago. We're all going to need to dig deep and find depths of resilience to lead through what I think is going to be quite an unstable period for some time.

Michael Hughes Thank you, Anne, for those important insights. It's been very powerful. Thank you.

That was **Anne Ward** in conversation with MinterEllison's **Michael Hughes**.

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And goodbye for now.