

Liquidity, Communication, Flexibility: Global CFOs Respond

On 26 March, Egon Zehnder's Global CFO Practice convened 35 Chief Financial Officers on a call to share early learnings from the COVID-19 Crisis and to create a forum for mutual support. It was a powerful gathering: Together, the group represented some 4.9 million employees and \$2.23 Trillion in 2019 revenues. They were clear about the significant impact of the crisis, and openly shared tools and approaches that they have put in place to minimize the human and economic consequences.

Here are some of the most important takeaways from our discussion.

Liquidity Takes Priority

Everyone agreed that this crisis is unprecedented from both a public health and an economic perspective, and that it is imperative to build financial flexibility to the “greatest extent possible. One CFO of a global equipment company with strong debt ratings said his first move was to use commercial paper available through the U.S Fed, followed by a review of all the material change clauses to be sure he could draw down on facilities if needed. He then put in place a standby facility, which he thought preferable to the revolver.

Another executive with a lower debt rating (BBB-) explained that he had decided to defer the company's dividend—and that the market did not react poorly. “We have heard nothing but support,” he said.

Unsurprisingly, all declared their intention to leverage whatever conditions the balance sheet provided and maximize liquidity.

Scenario Planning Must Be Flexible

Many companies routinely conduct in-depth scenario planning, but the current crisis is posing new and difficult challenges for the relevant planning groups. One CFO remarked that the scenarios imagined previously were typically regional or business specific, and that a simultaneous global health and economic crisis had not been part of the process before. The CFO of a global energy company with deep scenario planning experience explained that they are rerunning scenarios daily now, because the situation is changing

so quickly across the globe. Things continue to worsen at the moment, the CFO said: “The lowest case [worst case] scenario has shifted down a few times in the last month. What we thought was aggressive was not. I wouldn’t say that any of our scenarios get us back to a world we were in a few months ago anytime soon.” A global consumer products company CFO agreed. “We’ve basically thrown out the V-shape economic recovery scenario. I do think what I am wrestling with the most is that the length is much more significant than the depth. And then that that has the biggest impact on the future of the business.”

Long-Range Planning Deferred

With so much simultaneous and evolving change, many CFOs have postponed their normal annual or strategic planning meetings. This is not because they are unnecessary—all agreed that they remain critical – but because things are changing so rapidly that it is almost futile to go through the exercise right now. Said the CFO of a global retailer: We tend to start our long-range planning process right now—but it feels misguided. Typically we do a three year plan, but we are going to delay the process a little bit.” A global beverage CFO agreed, saying “I have an annual strategic planning meeting four weeks from now. I have had to pitch and repurpose it to discussing about what we are seeing in the here and now.”

The CFO of a global natural resources company with typically very long term planning and investment horizons stressed that what is key is to navigate and learn from this crisis in the short term rather than focus resources on what is currently a completely unpredictable future.

Regular and Frequent Communication is Key

All agreed that it is more important than ever to have regular, organized virtual meetings, and that overcommunicating with one’s direct reports is preferable to not doing enough. A pharma CFO talked about how lonely many people feel. “We are incredibly focused across the organization on keeping people posted: ‘What’s going on, what are the key priorities?’” Said one global consumer products CFO: “I completely agree on the importance of frequent sessions with teams. One additional piece has been, not only with own associates but also with our partners and stakeholders, being able to connect and work remotely.” These types of communication have taken many forms, from virtual one-on-one coffee mornings to global town halls, WhatsApp groups and virtual “office hours.”

Compensation and Bonuses

When it comes to last year’s bonuses, several companies said that they were continuing to pay out as planned, regardless of the short-term hit. “We’re going to stick to the plan,” said one global online retailer’s CFO. “There are good times and bad times. You have to have principles.” Others with less financial flexibility discussed their decisions. One CFO

of a recruiting company said that the top leadership has taken a 20% pay cut, and that all bonuses have been cancelled. “In reality, we’ve written this year off,” he said. “But our target is to hold on to as many of our staff as we can.”

The Future Has Changed

While most of the focus remains on the short-term, several companies are setting up groups to think about what will happen when the crisis finally abates. The CFO of a global food retailer believes that stores will still be important, despite the current focus on online ordering, but that exactly how may need to be reimagined. “When this does start passing, people are going to want to be social.” Over time, he says, “more and more of our day will be spend on longer-range planning.”

The CFO of a global airline mused about how much different air travel may be in the aftermath of COVID-19. “People will still need to be together but it will be different. Going forward, we are going to see a lot of aftershocks and early reactions to things that previously did not register.”

What all agreed on was that this current crisis represents a seismic shift in how CFOs operate as leaders and what they focus on as heads of one of the most critical corporate functions. The word ‘marathon’ came up frequently, along with a reminder that crisis management needs to be balanced with planning for an uncertain future.

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