



Responding to the Coronavirus Crisis: Selected Ideas and Learnings for Asia's Finance Management Leaders

Measures to contain the Novel Coronavirus (COVID-19) outbreak – including factory shutdowns, town-level lockdowns and quarantines, and transport bans affecting regional, national and international movement of goods and people – are resulting in a steep decline in household consumption. In parallel, ongoing disruptions of production, distribution, and retail have brought key industrial sectors to near standstill, set off ripple effects throughout regional supply chains, and created intense cash flow shortages from beginning to end of value chains. As of March 1, 2020, there has yet to emerge a definitive path to containment and remission of the crisis. Financial pressures on firms are increasing.

The challenges wrought by the crisis for Finance managers are complex and cascading: cash flows are strained by stalled supply chains and channel operations, increasing uncertainty requires wider scenario forecasting, and access to capital has tightened. If virus containment and remission cannot be achieved in the short-term, financial markets are vulnerable to both private sector bankruptcies and household mortgage defaults. The specter of financial crisis looms large.

The following assemblage of insights and learnings from our internal experts and member network will hopefully provide some helpful guideposts. The catalog below¹ essentially resolves down to three executive actions to address the challenges ahead:

1. **Assess the gamut of plausible scenarios.** At this difficult juncture, Finance leaders must plan for the worst and hope for the best.
2. **Tap all possible information channels.** Collect internal and external data to inform and continually update forecast assumptions. Cross-check information to ensure accuracy.
3. **As appropriate, take advantage of government support measures.** Direct your Finance team to proactively reach out to banks and ministries. Assure your business partners do too.

Key Must Dos and Get Rights

- **Forecast faster and for more risk scenarios.** Start by identifying assumptions for cost containment, business impact, and risk mitigation models. Accelerate the financial forecasting cadence to quickly assess financial implications of new scenarios. Include daily trends (ex. jobsite readiness in production and distribution as well as A/P, A/R) into scenarios designed to reflect different risk levels, for Q1 and Q2 forecasts of cash position, credit line balances, and financial results.
- **Use agile team processes within a crisis management platform.** Quick, daily inputs and cross-functional decision making are essential practice. A half-hour COVID-19 decision making meeting of the crisis team, daily including Saturday and Sunday, allows immediate decision making on issues related to employees, customers, government, operations and matters that involve HQ. Ensure that senior financial and risk management expertise are brought into the crisis management team. Finance must be quick to respond to requests on the spot, and top management must demonstrate concern about employee safety.
- **Keep communication with capital sources open and informed.** Stay close to corporate finance and banks to know which actions are possible, and which are not, under different scenarios. In planning, be cautiously skeptical about claims that the crisis is contained until more certainty is irrefutable.

¹ This list is not arranged in any order of priority.

- **Tap government and bank relationships to benefit from economic relief programs.** A fully engaged Finance team should proactively pursue policies designed to keep companies financially strong, get workers back to work and support remote and virtual workplace productivity. Each company should undertake a structured review of what is available to conserve cashflow and offset operational pressure. Benefits differ by province and city. Recently announced relief programs by the Chinese government include:
 - ✓ Extended repayment terms
 - ✓ Interest holiday programs
 - ✓ Public subsidies and grants
 - ✓ Tax holidays

Most provinces and many cities have published their relief programs, for example [Shanghai \(here\)](#), [Fujian \(here\)](#), [Guangdong \(here\)](#), and [Beijing \(here\)](#). Programs are being regularly updated (it appears), and additional programs may be available subject to negotiation. In approaching agencies and banks for support, emphasize the low credit risk that multinationals represent. Target direct and high-level contacts to negotiate for the best possible terms.

- **Revisit and revise guidelines for extending credit under crisis risk conditions.** As COVID-19 hits your supply chain, and eventually your cash flow, be willing to update approval processes for review of requests from existing distributors and customers for more generous terms. Short term, a loose credit policy will support your customer base; smart AP terms can help your suppliers lock in stocks of raw materials in the market. Balance short term with the likelihood that, as the crisis continues, basic creditworthiness of most players will sharply decline, and some customers and suppliers will fail. Build scenarios to estimate impacts and make sure funding is available for opening new customer and supplier relationships. Be cautious in evaluating distributor quality when recommending them to partner banks for approval.
- **De-escalate pressure for customers experiencing missed deliveries.** Customers coping with missed or late deliveries may resort to imposing any penalties permitted by contract. Know the liabilities involved. Work closely with Legal to provide all the data in support of agreement that missed deliveries are the result of force majeure. Offer available alternatives and substitutes, even at lower margins, to prevent loss of valued customers.
- **Create a special “emergency fund” for supplemental employee healthcare.** Work closely with HR to ensure financial resources are available for company leaders to demonstrate commitment to employee wellbeing. Funds for additional insurance and evacuation may be required. Allocate the resources needed to provide financial support to staff who are undergoing quarantine and whose family have been infected by COVID-19. Provide special support needed by your China staff based in Hubei. Costs of flexible work arrangements and preventive care need to be quickly allocated and easily accessible.

- **Invest in identifying alternative suppliers.** If access to suppliers remains blocked due to ongoing stoppages, engage suppliers elsewhere in China or regionally to return operations to pre-crisis levels. Some level of redundancy and agile processes for moving critical supply needs as necessary among redundant production bases will mitigate the risk of shortages now and in the future. Given the competition among localities in China, redundancy plans, if properly constructed, can result in procurement savings that pay dividends into the future.
- **Face the challenges of a remote workforce.** While staff are working from home, be clear about expectations for work output and be quick to solve technical issues with network, software, and hardware. Resource the IT team to support homeworking and all aspects of the business continuity plan. Stay consistent in articulating the importance of best practices in recording and backing up operational documents including financial data and information on cloud storage for access by team members.

Key Mistakes Not to Make

- **Don't dismiss worst case scenarios.** Avoid creating expectations that are overly optimistic, especially in communication with HQ. Make a financial assessment of the worst-case scenario, and agree upfront on measures for operations, finance, and HR, in a staged implementation plan. If the impact of the crisis results in a downsizing or relocation of sourcing, production, or other operations, be extremely cautious in proceeding, especially in consideration of talent retention.
- **Don't wait and see.** Short term and temporary measures won't result in a return to normal. They need to be monitored, updated, and adjusted in response to daily changes. Be proactive. Find competitive financing tools to maintain and rebuild supply and customer networks. Offer guidance and tools, and share information to stabilize customers.
- **Don't run generic cost cuts.** Focused interventions that are understandable are much less damaging to morale than generic costs cuts, especially across-the-board salary cuts.
- **Don't assume that government relief programs are not open to MNC's.** Experience tells us that local government can be persuaded to be much more flexible towards larger investors if they push and negotiate.

Key Things Not to Overlook

- **Use available leverage and regulatory relief to offset operational pressure.** Participate in the efforts of business and professional associations to lobby regulatory bodies where regular deadlines (ex. reporting financial results, submitting tax returns, and making announcements) cannot be met under crisis conditions and where relief is possible. If your company or foundation can make donations or provide in-kind support to government, be sure to reach out to access tax/duty exemptions, filing deadline extensions, subsidies or other relief.
- **Be consistent with policy.** Apply financial policies consistently across different group entities and departments, taking into consideration local regulatory guidance. Extraordinary times create many cases for making exceptions, which may later be regretted.
- **Step up investor relations communications.** The way executives communicate with the investor community when crisis hits can have a game-changing impact on a company's bottom line. Quickly establish a communication plan for your investor community projecting confidence that the company's leadership is on fully top of the crisis. Investors will want to understand what is being done to ensure ongoing production will quickly return to pre-crisis levels. Listed companies will need to issue profit warnings; unlisted companies need to be frank with owners.

We hope that this summary of ideas and learnings will be helpful as you navigate the complexities of this fast-moving situation. Please do not hesitate to reach out to our expert team for a quick chat or meeting – we're here to help.

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Acknowledgements

We would like to thank the following Council Program Directors of The Conference Board for their valuable input and contributions to this publication: Kelly Chan (Asia CFO Council), Teresa Lin (China CFO Council). We'd also like to thank Leo Austin, Ken DeWoskin, Jim Slamp, Rainer Schultheis of The Conference Board and the numerous members and partners of The Conference Board of Asia who provided valuable input and commentary.

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