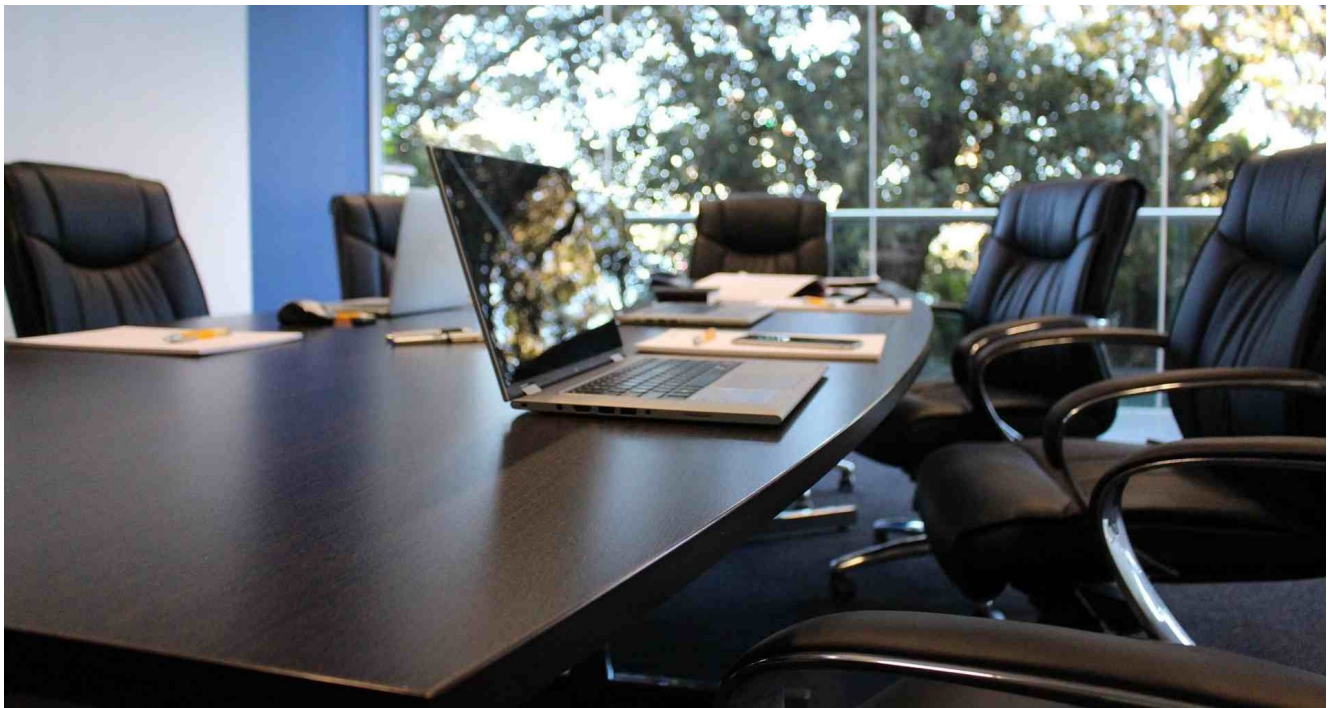


Boards should seek new opportunities amid the coming crisis

Now is not the time to "wait and see" how the crisis will pan out. Boards must provide proactive strategies and seek growth opportunities to build a stronger future.



September 13, 2022

- **Boards of directors need to actively support their firm's long-term development, even in the face of disruptions and crisis.**
- **Current disruptions — including higher energy costs, global supply chain interruptions and protectionism — can open up new opportunities for companies that seek them.**

- **A key responsibility of boards is to develop strategy that considers the new context and seeks growth to build a strong future.**

By [Jordi Canals](#)

The current inflationary context signals a dramatic change in monetary policy over the next few years. Low interest rates are gone, and we don't know yet how high they will climb in the new normal. Moreover, the war in Ukraine and the upward pressure on energy prices suggest that the energy transition will be more expensive for companies and citizens than what governments had predicted. While in the U.S. the economic growth consensus suggests a mild and relatively short recession, in Europe the context is much bleaker and economic growth may stagnate for a longer period of time.

In this new uncertain scenario, some boards of directors may adopt an apparently reasonable attitude of "wait and see" and choose not to overreact. While this may seem sensible, it is not professional. The duty of care of board directors should always consider a wider question: what should the board of directors do to support the firm's long-term development? Empirical evidence suggests that doing nothing is not the best decision in most cases.

Facing geopolitical and other disruptions

Navigating through a time of disruption — or a combination of different disruptions, including geopolitical factors and technology change — isn't easy (see: "[Company boards focus on strategy and ESG, but need to pay more attention to geopolitics](#)"). Developing a specific vision of the future can be risky. But it's important to keep in mind that companies exist to serve customers. Understanding how their needs and requirements will evolve over the next few years and being able to continue serving them in innovative ways are indispensable requirements for boards of directors and top management teams. Moreover, strategy should be based on a certain view of how companies plan to serve customers and the capabilities they need to develop in order to do this effectively and sustainably. Both boards and management teams must be fully involved in strategy.

Boards should understand that current and future geopolitical disruptions will not only create new tensions in international trade, but these will also make some markets less accessible. The current wave of disruptions — including higher energy costs, global supply chain interruptions and rising protectionism — will dramatically change the conditions under which companies serve their customers. This is something the board should be concerned about and discuss appropriately.

While these disruptions will create additional costs and new constraints for companies, they will also open up opportunities that firms will need to recognize and assess. Governmental efforts to relocate activities and strengthen regional supply chains may create new opportunities for some companies. Although higher energy costs may be painful, they will also force governments and companies alike to identify new sources of energy and think about more efficient manufacturing processes. For some companies, the new focus on resilience in the supply chain and sourcing from stable economies such as North America — including Mexico — and the EU will generate opportunities that were not available in the past. Many international companies have focused their presence in Asia on China. While ASEAN countries have smaller markets and pose some logistics issues, their rising middle classes offer new opportunities for long-term market development. The list of opportunities is long.

Serving customers and growing

Most importantly, boards — in collaboration with top management teams — should reflect deeply on how companies should serve their customers in the coming years and what aspirations they have for their companies. Boards should not only help devise new strategies in these turbulent times, but also make sure that the company has the right people to steer the organization towards the future. A strategy that considers the new business and social context can explain to investors, employees, customers and future hires how companies should evolve in the future. This is a key responsibility of the board.

Over the past few years, we have seen increasing pressure on boards from regulators and institutional investors regarding risk management, compliance and control. These are important functions of the board. Except in the case of growth stocks — shares in companies with a high potential growth, such as tech companies — pressure from investors to think about growth has not been very strong. Many investors have preferred high shareholder returns, through dividends and buyouts, rather than future growth. Boards should analyze the future and convince investors about their views. Now is the time to help the top management team come up with new strategies for volatile times and generate new opportunities. Thinking about growth opportunities in the current context can unleash innovation and creativity. Moreover, it is the only way to build a strong future.

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