



TATA CONSULTING ENGINEERS LIMITED

COVID19:

Strategic Risk Management under Uncertainty



A Perspective

COVID19: Strategic Risk Management under Uncertainty

The Scenario

Forecasts have a notoriety of being unreliable even under normal conditions, and look all the more dubious in current times, as there are simply too many unknowable aspects

Coronavirus health crisis continues its unabated march around the globe. The measures taken by various countries around the world to manage the COVID19 pandemic and to flatten the curve - restricting travel, shuttering non-essential businesses through lockdowns and implementing universal social distancing policies - are also leading to severe economic consequences. Economic contagion is expected to follow & spread as fast as the disease itself.

Risk managers prepare their organizations for all types of risks, but very few would have imagined that they would one day be faced with a global pandemic that could strike swiftly and with such a broad impact, with no predictable

end date. In such a situation with multiple parameters, the key imperative is to have an agile approach to business continuity and strategic risk management.

Forecasts have a notoriety of being unreliable even under normal conditions, and look all the more dubious in current times as there are simply too many unknowable aspects. Perhaps the only certainty is that any attempt at a definitive forecast will likely fail. However, examining various scenarios and planning for them could still add value in this environment of highly limited visibility. The estimates emerging clearly suggest that we are looking at a recession coming up, but its severity and duration will be visible only in hindsight.

The four common shapes observed in past recessions and recoveries are V, U, W and L, where the letters describe the trajectory of GDP, and other metrics tracking economic conditions.

Parameter	V	U	W	L
Overview and characteristics	The economy suffers a steep but brief period of decline, followed by a strong recovery. Represents the most bullish outlook	A longer period of economic decline where GDP may shrink for several quarters and only slowly return to trend growth	Double-dip recession where the economy falls into recession, recovers with a short period of growth, then falls back in recession before finally recovering fully	This happens when there is a severe recession which does not return to the trend line growth for many years, if ever. Represents the most pessimistic outlook
Return to Normal	<ul style="list-style-type: none"> • Much of the shortfall which might have happened in H1 2020 would be made up by growth in H2 • By Q3 of 2021, the steep recovery is expected to bring back levels of GDP to 2019 levels 	<ul style="list-style-type: none"> • While economic recovery does happen, it does not make up for the steep decline in the first half of this year • It could mean the economy wouldn't begin recovering until the end of 2020 or even early 2021 	<ul style="list-style-type: none"> • If recommended steps are not followed, then the growth cycle may be seen in a matter of quarters and not months 	<ul style="list-style-type: none"> • Denotes a depression in which growth falls and fails to recover till 2022. • The official recession may end within a few quarters, but the recovery to a pre-recession level of economic output may take years
Likely Probability	~ 30% probability as per reports	~ 55% probability	Likely in some countries like India	~15% probability
Similar Experience	In the early 90s, USA experienced a "V" recession which lasted for about eight months – from July 90- March 91	The Great Recession is a good example which lasted 19 months, from December 07 & June 09	An example is a recession which occurred in the USA between July 1981 and November 1982	Japan's lost decade – which happened in the 1990s is an example of L shaped recession

The Summary

In summary, there appears to be a complicated relationship between the path of the virus, the effectiveness of virus containment, discovery path of a vaccine or cure, and economic support policies, and the behaviour of the private sector. Consequently, there continues to be enormous uncertainty about the economic forecasts and the expected recovery path ahead. However, the consensus view has slowly shifted away from

a quick V-shaped recovery towards either a U-shaped slower recovery or even a W-shaped behaviour based on virus behaviour and government responses to contain it within the constraints avoiding extreme economic hardships of sustained or pervasive lockdowns.

One such example of using various scenarios in conducting Strategic Planning exercise for the financial year could be as follows:

The V:	The U:	The L:
Buy the Dip	Worst almost over, but slow recovery ahead	The worst has yet to come
<ul style="list-style-type: none"> • Containment in weeks • Vaccine ready and/or strict testing/tracing to prevent second wave 	<ul style="list-style-type: none"> • Ineffective lockdown delays containment for 2-3 months • Vaccine ready and/or strict testing/tracing to prevent second wave 	<ul style="list-style-type: none"> • Ineffective lockdown delays containment for 3-6 months • Lack of vaccine or poor testing/tracing causes a second wave

The key question is - Will the world, and the economy, pass through uncertainties spanning several months and quarters before reaching a steady growth state? And how we are preparing ourselves for surviving it out and leveraging it in the best possible manner?

During such testing times, Strategic Management teams will need to be conscious of the below-mentioned aspects to mitigate risks and survive the economic slowdown caused by the Covid19 impact.

1. Focus on cash – revenue vs expense

In these challenging times, it is imperative for businesses to carry out a proper assessment of fixed and variable expenses as well as the revenues to keep a keen eye on cash flows. Companies can also conduct stress test on their financials as well as check on the liquidity of their assets and investments. This will give a realistic picture of the financial health of the company and help the management in planning ahead.

2. Re-evaluating the business model in changed circumstances

Considering the rapid change in the situation (and that too, for the worse), it is of utmost importance to reconsider one's business model and check where it stands with respect to one's assumptions regarding markets, its products/ services, tracking metrics as well as evaluate the impact on future sales, collections, credit cycles and potential bad debts cycles.



3. Rolling plan for future – over 3 / 9 / 18 months

As it is difficult to predict accurately how long this pandemic will last, it is of importance to be prepared for all possible scenarios (examples given below for various time periods that the pandemic / crisis situation might last)

- **3 months:** Implement steps like instant halt on variable expenditure heads like hiring, marketing, travel, etc.
- **6-12 months:** Reconfigure strategy to reduce variable expenses, renegotiate for lower fixed expense (like premise rents,

salaries, lease payments of equipment, etc.). Focus on only crucial essentials for survival. Also revisit ones sales strategies – e.g. selling online instead of in-person

- **18 months:** Very serious reconsiderations would be necessitated in this scenario. Management will need to implement decisive strategies, ensure proper communication and act with compassion. This will also call for revision of revenue goals and product timelines along with a new operating plan

Key References

- <https://hbr.org/2020/03/understanding-the-economic-shock-of-coronavirus>
- <https://privatebank.jpmorgan.com/gl/en/insights/investing/tmt/the-shape-of-the-recovery>
- <https://www.forbes.com/advisor/investing/covid-19-coronavirus-recession-shape/>
- <https://economictimes.indiatimes.com/small-biz/hr-leadership/leadership/survival-strategies-for-businesses-during-covid-19-lockdown/printarticle/75371157.cms>

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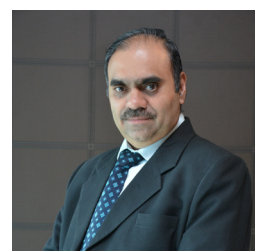
1. Design & Engineering
2. Project Management & Safety
3. Procurement Management
4. Digital & Advanced Technologies

Useful Links

1. [SOP for Restarting Office post Lockdown](#)
2. [SOP for Restarting Construction Sites post Lockdown](#)

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May 2020