

FINANCIAL SERVICES

## Businesses require new management models amid pandemic: McKinsey

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*Businesses need new management models amid the lingering pandemic. Image credit: Unsplash*

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By ELLEN KELLEHER

COVID-19 has undermined the most basic assumptions of how to run a business, forcing companies to come up with entirely new business models to survive, according to [McKinsey](#).

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The report "When nothing is normal: Managing in extreme uncertainty" argues that the magnitude of the global pandemic requires companies to build new business models. The study is the latest from McKinsey to detail how the coronavirus is upending businesses worldwide.

"The organization cannot treat any assumptions as sacrosanct. I agree with that," said Bob Shullman, founder and CEO of the [Shullman Research Center](#), Greenwich, CT. "Organizations should accept that they will be wrong from time to time during times of extreme uncertainty and they need to learn very quickly from their experiences."

### Business management in crisis

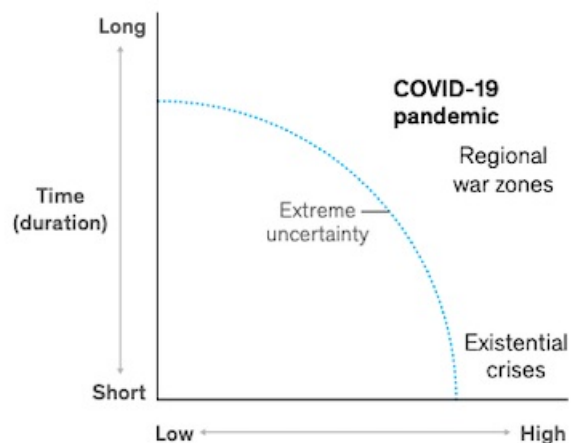
The McKinsey report covers an array of brainstorming exercises to help companies navigate the difficulties of the COVID-19 fiasco.

Since business planners now expect to operate in crisis mode indefinitely for the coming months, it is more important than ever for new operating models to be introduced to steer organizations forward.

Many organizations are in a struggle for their existence and are facing an existential crisis amid the pandemic.

In business terms, the severity of the crisis closely resembles recent economic meltdowns like the financial crisis of 2008-2009.

## Duration and magnitude of a crisis are important determinants of uncertainty.



*COVID-19 represents extreme uncertainty for most companies. Image credit: McKinsey*

"With the onset of the pandemic, the IMF quickly shifted its estimate to contraction, of -5.9 percent in April 2020, revised to -8.0 percent in June," the report says. "The latest estimate, October 2020) is less severe at -4.3 percent, but this would still be the worst result in many decades."

The IMF's GDP contraction forecast for 2020 is more than double the estimated contraction that took place in 2009, the worst year of the previous global financial crisis.

When brainstorming about how to escape the current crisis, it pays to consider why existing operating models fail.

McKinsey points out that COVID-19 has undermined most of the assumptions of the traditional annual planning cycle, during which managers decide on strategies, budgets and operating plans once a year.

Revenue assumptions cannot be trusted. Meticulous status reports are outdated before they reach senior managers.

"Managers seeking more up-to-date information discover that existing processes are too rigid for a timely response," the report says.

In an uncertain environment like this, managers need flexibility and to act collectively and quickly across an organization as challenges arise.

New organizational structures should be put in place that recognize companies are in a crisis situation in the same way that the New York City Fire Department was forced to devise new methods to deal with the aftermath of the September 11 attacks.

Once the crisis is recognized, a nerve center should be set up to oversee a holistic crisis response. An inner core of managers with sound judgement and strong credibility should be elevated to lead the business.



*Working from home has its own set of challenges. Image credit: Knight Frank*

Also, operating plans and decisions need to match the evolution of the crisis.

"This does not imply a simple speedup of existing processes to accommodate the information needs of managers,"

according to the report. "Rather, it means creating entirely new procedures."

To sum it up, managers must understand and respond continuously to dynamic and wrenching change.

"Managers must doggedly question established assumptions, especially the ideas adopted under conditions of extreme uncertainty," the report says.

Once the worst of the crisis has passed, more resilient organizations should start looking for opportunities. McKinsey research suggests that groups shifted to mergers and acquisition activity quickly after the 2008-2009 financial crisis, using the cash saved during the crisis to buy assets.

Working during a pandemic

Employees of all levels have faced challenges as the pandemic required sudden shifts in business practices.

As social distancing became the new normal throughout the United States and the world, professionals across industries made drastic and immediate changes to their work and presentation styles.

With the quick shift to working from home, business leaders, lawyers and sales and marketing teams are navigating new terrain figuring out how to effectively communicate in a way that will achieve a desired outcome while working remotely ([see story](#)).

However, digital transformations in the workplace could be moving more rapidly, according to a recent survey from Boston Consulting Group.

The vast majority of managers and employees believe a digital transformation, including support for remote work, client relationships, internal processes and marketing, will help their organizations adjust more easily to a post-pandemic climate ([see story](#)).

While the McKinsey report was thorough, it did not delve into the cash deficiencies businesses of all types face amid the current crisis.

"I noticed that the McKinsey report did not highlight that the organization needs to focus immediately on how the situation may impact the organization's cash flow and credit lines," Mr. Shullman said. "Once cash slows down materially or runs out, the organization generally has a mammoth, immediate problem."