

CORPORATE LEADERSHIP:

Resilience, reinvention and thriving on the other side



2021

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From Pandemic to Endemic: Resilience and Adaptation

By **Joseph Brusuelas**, Chief Economist;
Steve Kemler and **Adam Lohr**, Life Sciences Senior Analysts

Business leaders around the globe over the last 20 months have done their best to respond as the public health and economic crises have evolved. As we near the end of 2021, the challenges continue.

Disruptions have varied in nature and scope: financial strains, supply chain challenges, workforce relocation, altered customer behaviors, surges in disease, and laws governing mitigation measures. Take all of that, then factor in the change in administration and a landmark social movement—and the result is an unprecedented test of businesses' ability to adapt.

Issues have evolved, but stress and strain hardly relent. Whether it's enforcing vaccine or testing requirements for employees, accelerating a decade's worth of lagging capital expenditures, navigating challenging labor markets and the seismic shift toward remote work, or responding to transformational legislation, businesses seek solid footing in the form of resilience and reinvention.

That goes to the question that many business leaders have been asking since the middle of 2020: When we finally beat back the pandemic and it becomes endemic, what will life, ecosystems and the marketplace look like?

As the view for governments and businesses has come into sharper focus this year, it has become common to evaluate existing business models, update workforce policies and invest in technology and digital infrastructure.

Business leaders, in particular, have much to ponder. While pandemic-driven headwinds are still impeding the full recovery of the economy, business conditions point to continued robust economic growth, rising revenues, and healthier net earnings during the third quarter of 2021 and the ensuing six months. Recovery looks different for each business, but the pillars of resilience and reinvention can support a few areas common to organizations across all sectors.

Work from home becomes work from anywhere

Of all the pandemic changes, the shift from the office, to home, to anywhere is proving to be one of the most dramatic and challenging.

For many industries, the talent pool increased exponentially almost overnight, and employees finally received the flexibility they had been craving. Many businesses are now able to more easily recruit better talent and reduce labor costs by moving away from traditional talent and high-cost labor hubs.

However, there is still a risk of employee burnout and a lack of connectivity to the company or peers, which can negatively affect morale, collaboration and innovation.

As a result, business leaders need to consider how this transformed workforce will function within a community that is now structurally different and increasingly digital. Communication, collaboration, training and evaluation all look different going forward, and the need to embrace technology solutions is greater than ever.

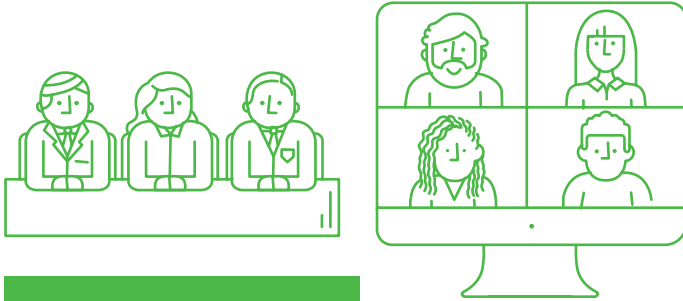




Business model evolution

Professional services firms have been serving clients remotely for 18 months. Doctors and patients continue to embrace telehealth. E-commerce grew by more than 33% in 2020, according to the research firm eMarketer, which projects another 17.9% in year-over-year growth in 2021.

Business owners are evaluating new consumer preferences, who their customers were before and during the pandemic, and how consumer interactions have changed. As the economy recovers and the flood of pent-up consumer demand affects markets, the challenge for middle market businesses is to remain relevant and competitive in an increasingly consolidated and technologically advanced economy.



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Weighing local rules, federal recommendations and community attitudes

As the delta variant of the coronavirus took hold in America and thwarted many expectations of a timely reversion to pre-pandemic processes and behaviors, it became the responsibility of firms to decide how to move forward in the best interests of their customers, employees and bottom line.

In response to the easing of mask mandates and occupancy limits by some state and local governments, many large retailers decided to maintain their requirements for face coverings and stated they would continue to follow federal guidelines on social distancing. Unions and employee associations pushed for continued safety measures to keep their members healthy.

Just as the implementation of mitigation measures generated disagreement, the lifting of such measures has been rife with tension—and in many cases, so have vaccine and testing requirements. Business leaders have been tasked with navigating this uncharted territory, as well as enforcing their own internal and customer-facing policies. Those adept at structuring cost-benefit analyses and processing stakeholder input are best positioned to make the difficult decisions to reach desired outcomes.

There remains much to do and to anticipate, but we have moved well beyond the despair and uncertainty of 2020. Business leaders have learned and adapted. It will take that reserve and ingenuity to tackle the next leg of our COVID-19 journey—growing and thriving despite its endemic challenges.



The Board's Role in Change Management

The public health and economic crises since March 2020 have prompted leaders at many businesses to reflect broadly on core priorities and processes rather than embark on a specific change or initiative. By now, most companies, even those that scrambled to survive initially, have adopted a strategic approach to the post-pandemic competitive landscape.

That type of retrenching is easy to overlook while operating in emergency mode, as so many businesses have done to some extent. Nonetheless, it is critical to the success of any transformation effort—especially when a crisis is the catalyst for the change.

At the same time, change can be difficult. Existential change can be especially stressful and exhausting, particularly when people—regardless of their position in the corporate hierarchy—face the vast array of personal challenges that have affected so many throughout these crises.

As we prepare to flip the calendar to 2022, leaders who help their businesses combat change fatigue and institutionalize resiliency will position them to realize the benefits of change initiatives and thrive after these crises have subsided.

Combating change fatigue

Months into the pandemic, employees everywhere were under duress. They were displaced from their offices, lacked necessary tools and technology, and, in many cases, were sharing workspace with children, pets and elderly parents. More than a year later, those problems have not entirely abated.

For business leaders, expecting people to take on new roles and responsibilities or pivot to new goals and metrics while doing everything they did before is a sure way to jeopardize a transformation effort.

“Organizations need to be thinking in terms of a stop for every ask,” says Bob Mulcahy, director of learning for RSM. “To accelerate change, we need to be able to explain to our people, Here’s what we’re going to do—and here’s what we’re going to stop doing so that you can achieve that, because if we ask you to do everything you’re doing today, plus something else, you’re going to break, and that’s not good for the organization and getting where we want to go.”

Boards can play a part in achieving that balance by helping management not lose sight of cultural values and by reminding them to be sensitive to employees’ concerns. Employees are valuing intangibles such as working relationships and flexibility as much as or more than compensation, so efforts to engage and connect are more crucial to retaining talent and ensuring quality performance.

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One way to encourage productive communications between managers and employees during the change management process is to introduce a structure of accountability. RSM heard from one company's board member who would call employees directly to ask about how managers have engaged with them.

Leadership at many businesses has employed pulse surveys to get feedback about employee concerns and engagement during the crises. Information gathered has shaped office reopening plans and updated best practices for a variety of processes, including in-person client interactions.

Valuing employee feedback strengthens a sense of togetherness in taking on the difficulties of change. In turn, knowing that colleagues are sharing the burden and pulling the rope helps underscore that the benefits of change are worth the current struggle.

Institutionalizing resiliency

Directors are understandably concerned that hard-won gains will be lost when things normalize and the change imperative fades. Many boards will resume regular meeting schedules and levels of involvement, as companies drift back into business-as-usual mode. At the same time, there's recognition that "normal" as we knew it may never return.

Directors must brace themselves to help boards navigate the uncertainty ahead, including questions about labor markets, supply chains and the effects of transformational legislation if enacted.

To that end, some boards and leadership have maintained a view that these crises represent opportunity. After all, change can be a strategy accelerator. Permanent remote workforce policies are one example. Or, perhaps this is the time to invest in another fundamental change to the organization, such as a merger, acquisition or a new enterprise resource planning system.

Ultimately, it will be up to those in leadership roles—on the board and in management—to continue to prioritize agility, determining what changes to pursue and then working to sustain the sense of urgency and positivity necessary to make them happen.

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How Boards Can Lead Digital Transformation Efforts

Digital transformation has been on the collective minds of most boards in recent years, but the pandemic has accelerated the pace of change necessary to stay competitive due to evolving customer and employee demands. Boards can help their organization by looking closer at how it prioritizes and manages digital transformation, especially because the digital transformation playbook is changing for organizations of all sizes.

Companies are moving from digitizing—focusing on operations and efficiency—to a more digital mindset, which means disrupting the model within the industry and doing things differently. And contrary to popular belief, digital transformation is not just about technology; instead, it encompasses people, process and technology.

Technology evolves very quickly, and when people see what is now possible and how rapidly consumer and employee demands are changing, it's natural to feel somewhat behind. However, it's one thing to be behind, and another to be late to the game. While some organizations are certainly risk takers and digital leaders, boards can take the following steps to make up digital ground and leverage innovation to gain an edge on the competition.



Consult a variety of experts

Boards that get technical information about digital transformation only from the chief technology officer or chief information officer risk missing out on some transformational opportunities. Consulting a broader range of leaders can illuminate how

digital transformation can help solve a host of business problems.

For example, human resources leaders can explain changes in recruiting or people development. Marketing leadership might provide insight into how new technology or strategies can enable the company to market differently or create new channels to bring in new customers.



Learn and teach

Directors who understand digital transformation can more effectively convey the benefits of specific initiatives.

One route that some board members are taking is to enter a reverse mentor relationship with a more digitally proficient (and possibly younger) coworker. They learn about and experience digital technologies that they may not have exposure to otherwise. In addition, a host of learning opportunities about innovation and digital strategies is available from first-choice advisors, and even online services such as YouTube and LinkedIn.



Form a tech committee

Initially, boards can have difficulty determining where digital transformation fits within a committee structure. When something is new, it is often added to the audit committee; but is that really where it belongs? While digital transformation includes elements that may work in the audit committee, it also could involve the governance committee.

From a board perspective, then, think about the different structures and how to manage transformation long-term. With the unique nature and importance of digital transformation, forming a separate technology committee may be the best move.



Ask the right questions

When it comes to technology or transformation initiatives, in the past boards typically have monitored projects that could take years to implement and produce results. However, today's digital transformation is different and faster paced. Agility is important to the business model, and should factor into the questions asked about digital projects.

For example, directors might want to ask how projects affect short-term goals compared to long-term goals, what executives are seeing in the outside world that may be applied internally, and how long it will take for new features and strategies to be introduced.



Inspire leadership

Serving as a champion of digital transformation is a key role a board can play. The board is instrumental not only in instilling the mindset of change, but also in questioning how digital change is prioritized and aligned with all other necessary initiatives. The board should be the constant voice reiterating the approach to and importance of digital projects.

In addition, inspiring innovation may require a culture shift. To encourage new ideas, directors can help ensure their organization does not punish commercial failures. Instead, applaud small failures and encourage employees to take risks. Failing fast is an important part of an evolving business.



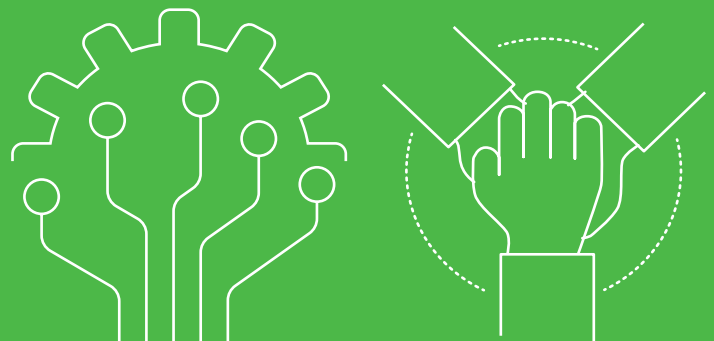
Ramp up your internal personnel

Board members often view a shortage of talent as the biggest barrier to digital transformation. Emphasizing internal development can help overcome that. For example, individual development plans can be formulated for each of your critical employees. A variety

of online courses and in-person learning opportunities can hone their skills.

With most initiatives, organizations tend to put training at the bottom of the list. However, it is one of the most important factors in digital success.

THE TWO-PART VISION



Connecting with customers and employees is far more challenging in today's world than it was before the pandemic. Organizations realize the need to be innovative and that they cannot afford simply to uphold the status quo.

Digital transformation is both an art and a science. The science is the innovation, but the art is getting people excited and shifting the organizational mindset. With the right approach, the board can play a critical role in helping the company move forward with both endeavors.

Building Your Risk Management Strategy Framework

By **Emily Leick**, Principal, and **Josh McKinley**, Manager, Risk Advisory Services

Board members, C-suite executives and other organizational leaders have a responsibility to develop a vivid picture of the future and define a strategy to get there. Stress-testing that high-level strategy should be part of your risk management process. Everything a business does comes with some amount of risk, and understanding that risk on multiple levels is part of that responsibility.

Although companies haven't traditionally stress-tested risk management strategy, that is changing—especially after the experiences of the pandemic, multiple disastrous weather events and continuing shortages in vital supply chains during the past two years.

As your organization begins to evaluate its strategy and risk management framework, ask these four questions to discover and address vulnerabilities that could escalate into unacceptable levels of risk.

4 CRITICAL QUESTIONS BOARDS SHOULD CONSIDER

1. Have the strategic plan and its underlying assumptions been stress-tested with respect to severe market, customer, supply chain and technology events?

Strategic planning often begins with collecting large volumes of data to use in modeling potential future scenarios, and then a second wave of data is analyzed to determine what scenario is best.

As enterprise risk management frameworks catch up to the new reality of proactively planning for so many disruptive outside forces, one emerging practice is to stress-test strategic plans. By incorporating black swan events into the planning process, leadership can estimate the impact on operations and identify mitigating strategies to limit overall risk exposure.

Business conditions can shift quickly and affect key areas such as availability of raw materials or prompt an unexpected upward swing in demand—sometimes within months. Having the flexibility to pivot overall strategy is a big competitive differentiator now, and it will be even more important in the future.

2. What short- and long-term changes to our risk management framework may be needed for our strategy to be successful?

Regularly reviewing and updating your risk management framework is essential to identifying and monitoring new or

critical risks. When considering changes to your framework, evaluate these potential risk areas:

Remote workforce technology risks

The work environment is being stretched through access points that are now potentially vulnerable. Is your organization doing everything for home computers that it was doing for workplace computers? Do employees need to use different applications to ensure security and reliability?

Data risks

The amount of data used in organization systems is continuously growing. While there's a potential for creating high value from data, it comes with risk. As the amount and potential of data rises—including upstream and downstream data from vendors and third parties—are your organization's skill sets and governance policies keeping up?

Talent risks

An organization is only as strong as its people. Does your organization need to evolve its recruiting strategy or its compensation model to maintain a leadership pipeline? What key roles could be co-sourced or outsourced?

Cloud risks

Organizations are using more and more cloud technology and services for digital transformation. Have all the potential risks of moving to the cloud been identified and addressed?



3. How are we monitoring evolving and emerging risks and assessing their impact on our risk management framework?

Organizations should revisit their risk framework routinely to ensure that top risks are aligned with current market conditions. Leveraging governance, risk management and compliance software, automation, and analytics can help your organization monitor its risk framework in real time and assess whether modifications are needed in your strategic plan or related activities.

For example, how could shortages of a particular skill set, growing cybercrime threats or climate change affect the overall risk framework and company strategy? Failure to monitor current business conditions and their impact to: your risk framework, operations and strategy could have significant consequences for the growth and viability of your operations.

Update your risk management strategy

By asking those four questions, you can begin to identify and assess the vulnerabilities that could develop into major risks to your business. While results from these assessments can be overwhelming, your organization does not have to address vulnerabilities on its own. You can benefit from the experience of a trusted advisor to ensure your organization remains healthy and aware of evolving, emerging risks to your business.

4. Is the organization building resiliency and considering lessons learned for any future crises?

One lens to use when updating your risk management framework is lessons learned from recent events. For example, many companies are reviewing and changing their supplier relationships and supply chain management because of the pandemic. When lean inventory practices and exclusively sourcing by low cost led to a lack of materials and parts—and lost business when manufacturers couldn't fulfill product demand—companies realized supply chain resiliency was a top risk that needed to be addressed.

Another common area to review is cybersecurity. According to first-quarter 2021 RSM Middle Market Business Index data, 28% of middle market executives said their company experienced a data breach in the last year—the highest level since RSM began tracking data in 2015 and a sharp rise from 18% in 2020.

In 2020, 33% of respondents reported a ransomware attack and 51% suffered a social engineering attack. If your risk management strategy doesn't include a strong resiliency component for cybersecurity and other lessons learned, consider how to close that gap.



LABOR PAINS: HOW CAN THE U.S. ECONOMY OVERCOME ITS SHRINKING WORKFORCE?

BY JOSEPH BRUSUELAS, CHIEF ECONOMIST

The robust economic expansion is unfolding in a unique fashion, and it is not for the fainthearted. Everything from semiconductors to employees is in short supply as the economy recovers from the shock of the pandemic and as some workers, especially those in lower-paid service jobs, rethink their place in the labor force.

Thanks to the government's response to the disruptions of the coronavirus, American workers have had more than a year to reconsider how they want to continue their employment. Although tracktherecovery.org reports that low-wage employment in September remained nearly 21% below the pre-pandemic levels of January 2020, and total job postings remained 11% lower, there is a segment of the labor force intent on not returning to the same old jobs at the same old salary.

Should we just expect to flip the switch and bring back the low-wage segments of the labor market when government subsidies end? Or has this once-in-a-lifetime pandemic given us a reason to rethink how we staff our train yards and warehouses, and why we expect restaurant, health care and school staffs to continue accepting low wages?

There is good reason to think that the shakeout of the labor market is not yet over as jobs go unfilled and workers demand higher wages.

The labor market over the long term

Beyond what we consider to be temporary supply-chain issues—which are hampering the immediate recovery from the pandemic—is the overriding issue of a shrinking labor force.

After a decades-long burst of energy sparked by women entering the labor force beginning in the late 1960s, the labor force participation rate has been on

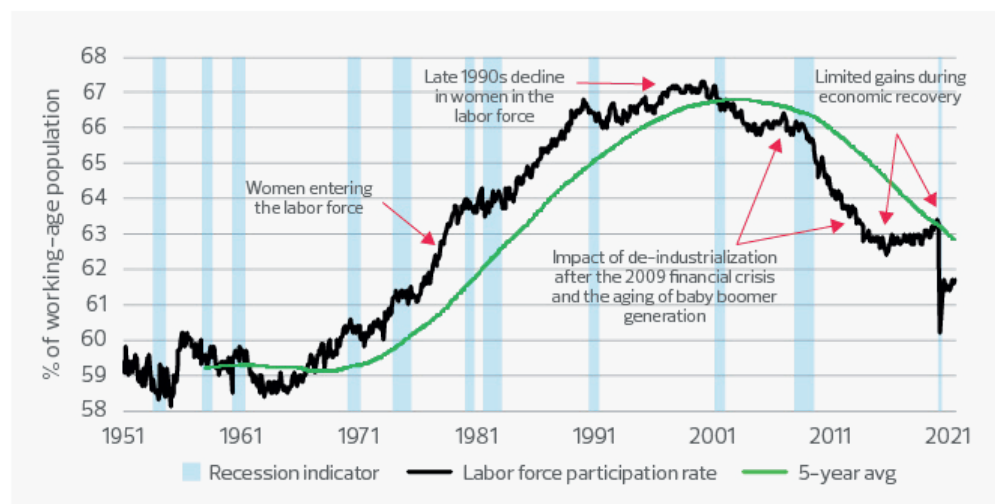
a downtrend since the 2001 dot-com recession. Much of that decline was likely because of a confluence of events that included the shrinking of the manufacturing sector, the peaking of women voluntarily joining the workforce, and the retirement of baby boomers.

But other factors are pushing people to the sidelines. These likely include diminished prospects for earnings as service sector jobs became the dominant source of income. Why work for next to nothing at an otherwise unrewarding job? People tend to make rational decisions, and as the pandemic continues, many are reconsidering the place of work in their lives and what is reasonable compensation for that work.

Not since the Great Depression have so many people been out of work so quickly and for so long. And during this time, they've been able to keep food on their table and a roof over their head for the most part.

It's given your barista serving coffee to higher-paid people or the waiter making \$2.39 per hour plus tips time to think that maybe their position wasn't the best long-term option. That seems to account for the gaps between job vacancies and hiring rates for restaurant workers and the transportation sector.

Long-term trends in the labor force participation rate PERCENT OF POPULATION WHO ARE 16 YEARS AND OLDER



Source: U.S. Bureau of Labor Statistics; Bloomberg; RSM US LLP

Is this a short-term phenomenon? Chances are the pandemic put a spotlight on a long-term trend toward employees creating their own opportunities for advancement. The U.S. census reported an extraordinary jump in the number of startups during the pandemic as measured by applications to open a business.

So if there is any economic good resulting from the pandemic, it may be that 300,000 new entrepreneurs make a good case for free enterprise. In addition, the growing call for better pay and working conditions may lead employers to partner with their employees, providing tuition benefits and flextime and immigration support, while their business earns goodwill and a loyal and productive workforce.

Demographic changes

Absent a productivity miracle, economic growth cannot happen without a growing population—it takes more people and new ideas to grow an economy. The alternative is stagnation of output and a paucity of ideas.

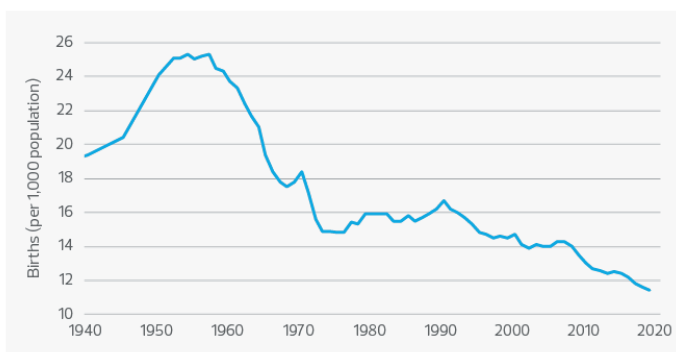
Recent data show an aging population and a declining birthrate, all without a sensible and robust effort to replace those missing from the labor force or to provide the next generation of innovators. These trends have the potential to flatten the U.S. economy.

An aging population: Workers who are 55 and older now make up 30% of the population, up from 25% in 2011. That number will strain the social safety net and drain resources that might otherwise be directed at the prime-age working population.

At the same time, those 25 to 54 whom we consider as being in their prime working age are in decline, falling to 39% of the total population from 41% a decade ago. And their replacements, or those who are 24 and younger, have also dropped, to 31% of the total population, down from 34% in 2011.

A decline in birthrate: Adding to this aging of the population is a declining birthrate. Last year was the sixth consecutive when the number of births in the United States declined, according to the National Center for Health Statistics—at an average rate of 2% per year.

U.S. births per 1,000 of population



Source: Infoplease.com; Statista.com; RSM US LLP

This decline has become a generational issue. Hypothetically, it would take 2.1 births per woman for a given generation to replace itself. The provisional total fertility rate for the

United States last year was only 1.6 births per woman, which is down 4% from the rate in 2019 for another record low. The report adds that the total fertility rate has generally been below replacement since 1971 and has consistently been below replacement since 2007.

An analysis of data from the Centers for Disease Control and Prevention by the Brookings Institution finds that “women are both delaying childbearing and having fewer total births,” which implies that “below replacement level fertility rates in the U.S. are probably here to stay for the foreseeable future.”

Immigration: There are essentially two ways a labor force can have the productivity to meet the needs of an economy: through a growing population or with increased automation.

Consider then the issues presented by a declining birthrate, an aging population and a restrictive immigration policy—all a recipe for limited growth and the potential for the “Japanification” of the U.S. economy.

A brief history of immigration shows that by the time the Johnson-Reed Act of 1924 imposed quotas on immigration from most parts of the world, many European families had already made their way to the United States.

The impact was a diminishing role of immigrants, with the percentage of foreign-born residents falling from 15% of the total U.S. population to less than 5% by the 1960s.

That restrictive legislation was changed by the Immigration and Nationality Act of 1965, which by 2019 had restored the presence of foreign-born residents to 14% of the total population.

Still, there has been a deceleration in the growth of the foreign-born population in recent years, according to data from the Migration Policy Institute. Note that these data include people residing in the United States both with and without authorization.

Looking ahead

The shocks unleashed by the pandemic will almost certainly lead to a period of innovation. It is hard to imagine moving forward without significant immigration reform to address the clear challenges in the American labor market.

Moreover, as the global supply chain bottlenecks are unclogged and the economy eventually moves past the pandemic, demand will remain robust, and this will require a different mix of labor and technology.

For too long, basic reforms in the United States have been delayed. The infrastructure package recently approved by the Senate is one ray of hope that those reforms will be addressed.

Most important, as the churn in the labor market continues, this will result in what will be a rethinking of the relationship between society and work. In our estimation, the outcome is most likely to produce more sustainable changes necessary to address what will be a different economy once the pandemic eases.

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