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Companies should shift from 'just in time' to 'just in case'

Pandemic has shown that businesses neglected vital safety margins

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Those businesses that have maintained a safety net of loyal full-time workers are more likely to pull through the crisis © PA

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The Covid-19 outbreak has exposed the thin margins on which much of global business runs. Highly indebted companies, working from lean inventory, supported by just-in-time supply chains and staffed by short-term contractors, have borne the brunt of the sudden blow. They will now suffer the rolling, longer-term impact of its unpredictable consequences. Too late, many executives and owners have realised that by pursuing the holy grail of ever greater efficiency, they sacrificed robustness, resilience and effectiveness. In many cases, they will turn out to have sacrificed the business itself.

As managers wrestle with how to restart production lines and restaff offices, they must also consider how to prepare for inevitable future shocks. These include not just a resurgence of this virus but different, perhaps more dangerous, pandemics, or the longer-term disruption of climate change. Like the banks after the global financial crisis, businesses will need to build thicker buffers against shocks. If they do not, governments and regulators will need to find ways to encourage or oblige them to shore up their defences.

At least in the short term, investors will help by shunning fragile business models. Equity and bond markets are already discriminating sharply in favour of fundraising requests from companies with strong balance sheets and high credit ratings. Jim Chanos, the US investor, warned last month he was shorting the stock of companies that relied on "gig workers", on the basis that the crisis would change social and political attitudes to businesses relying on this precarious workforce.

Ideally, companies should aim for what Nassim Nicholas Taleb has called an "antifragile" approach, going "beyond resilience and robustness" so that they can adapt to, and even thrive on, disorder.

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Having survived, though, their first priority should be to rebuild cash reserves. For many businesses, this will be achieved with government help, in the form of backing for furloughed employees, loans, and direct subsidies. Some governments are rightly tying such aid to short-term restrictions on dividend and bonus payouts. The EU, for example, is planning to forbid subsidised businesses from taking "excessive risks" or engaging in "aggressive commercial expansion".

How long such constraints extend beyond the acute phase of the crisis will be one important question for governments and regulators as economies edge out of lockdown and companies start to seek competitive advantage by jettisoning cash cushions.

Banks, which have learnt since 2008 to operate under higher requirements for adequate regulatory capital, share a responsibility here to help customers bring levels of gearing down.

Second, companies must transform their supply chains from "just in time" to "just in case" models. The pandemic has underlined the need for suppliers and customers to work together. Afterwards, it will be up to larger survivors, in particular, to help support the smaller and weaker components of their supply chains, rather than pursuing a beggar-thy-neighbour approach that destroys the chain altogether.

Finally, businesses need to reinforce the networks of people that underpin their success. This will be a challenge when many will have to lay off staff just to survive. But it is arguably the most crucial element of a post-crisis strategy. Just as companies built purely on the brittle web of the gig economy may collapse, so those that have maintained a safety net of loyal and adaptable full-time workers are more likely to pull through — and will be better prepared to ride out future disruption.