

# Spend Smarter to Accelerate COVID-19 Recovery and Renewal

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By Analysts [Stewart Buchanan](#), [Dave Aron](#)

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Initiatives: [Executive Leadership: Cost Management](#) and [1 more](#)

Medical practitioners have identified immune system overreactions as more deadly than the virus. Executives also risk overreacting when making spending decisions under extreme financial pressure. Use this research to double-check all spending plans to survive through recovery, reinvention and renewal.

## Overview

### Impacts

- Fear is a healthy emotion when it keeps us safe from unnecessary risk, but it can also have a more insidious influence on decision making in a crisis that nobody wants to admit. Fearful fixations on past threats will often distract from the reality of new risks that are even more dangerous.
- Facts offer refuge in times of uncertainty, but nostalgia for past performance is an unreliable source of insight into the future, especially during periods of rapid change and upheaval. Irrelevant, inaccurate or incomplete data provides only confirmation bias for inappropriate retrograde decisions.
- Faith and confidence to invest in the future are in short supply during a crisis. People look for safe choices that confirm their preconceptions while challenging anything unfamiliar, new and innovative. But new and innovative investments are essential to building a more successful future.

### Recommendations

Executives involved in cost management should:

- Reevaluate fears objectively, going beyond emotional responses, political considerations and past experiences to prioritize the real risks that are critical now. Then evaluate decision scenarios to best overcome them.
- Challenge past performance by gathering data that tests assumptions about future scenarios. Iteratively test and explore hypotheses by gathering fresh data on which to base more-innovative, fact-based decisions.

- Renew business confidence in the future as it evolves, instead of trying to re-create past practices that are no longer appropriate in a different and divergent present. Start small with exploratory investments to build a better future.

## Analysis

Executive decision makers under pressure from unprecedented events find it even harder to make the best decisions for all the right reasons. Medical professionals have identified immune system overreaction in some patients as more deadly than the virus. <sup>1</sup> Executives must also be wary of overreactions that do more damage than the epidemic.

Executives must not be afraid to make decisions that will be judged with the benefit of hindsight. Even before the COVID-19 pandemic, Gartner had identified ways in which traditional investment decision-making processes seemed broken (see [“Growth Investment and Cost Structure Primer for 2020”](#)). This research applies behavioral economics to test executive reasoning at a time when making the right choices has never been more important. Use it to double-check the tone of all decision-making thought processes.

Economics has often been criticized for assuming that market behavior is perfectly rational, when human behavior is not. Behavioral economics explodes the myth of the “perfect market” to better understand both customers’ and competitors’ behaviors. It also heightens awareness of all the assumptions made in our own decision making. This research draws on the field of behavioral economics, including that of recent Nobel prize winners:

- Economist Richard Thaler won the 2017 Nobel Memorial Prize in Economic Sciences for “contributions to behavioral economics and his pioneering work in establishing that people are predictably irrational in ways that defy economic theory.” <sup>2</sup>
- Economist Robert J. Shiller won the 2013 Nobel Memorial Prize in Economic Sciences for “his empirical analysis of asset prices.” <sup>3</sup>
- Psychologist Daniel Kahneman won the 2002 Nobel Memorial Prize in Economic Sciences for “having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty.” <sup>4</sup>

There are many ways in which our decision-making behaviors can be understood, interpreted and influenced, but Gartner makes them easier to apply through a simple classification under fact, fear or faith in Table 1. The first row highlights the primeval reaction of fear, resulting in even greater risk aversion and a focus on business as usual. This is traditionally associated with systems of record and taking refuge in authority, as recognized by Aristotle in [“Rhetoric”](#) almost 24 centuries ago.

**Table 1: Five Perspectives on Three Basic Spend Classification Categories**

<i>Behavioral Motivation</i> ↓	<i>Business Dimension</i> ↓	<i>Business Purpose</i> ↓	<i>Pace Layering</i> ↓	<i>Aristotle's Rhetoric</i> ↓
Fear	Risk	Run	Systems of Record	Ethos – Authority
Fact	Cost	Grow	Differentiation	Logos – Logic
Faith	Value	Transform	Innovation	Pathos – Empathy

Source: Gartner (June 2020)

Senior executives must maintain their leadership vision to stay ahead, even when their instincts are to run with the herd and attempt to assert their authority. Instinctively seeking safety in numbers is an appropriate risk response when under attack by predators, but it can spread contagion during an epidemic.

Leaders enable their organizations to recover from crisis by pulling away from the herd. Success is achieved by distancing ourselves from the herd through competitive differentiation. Even if we stumble in our efforts, distance reduces the risk of being trampled by competitors. Now more than ever, it pays to be different (see Figure 1).

**Figure 1. Impacts and Top Recommendations for Executives**

**Impacts and Top Recommendations for Executives**

<b>Impacts</b>	<b>Top Recommendations</b>
Fear is a healthy emotion when it keeps us safe from unnecessary risk, but it can also have a more insidious influence on decision making in a crisis that nobody wants to admit. Fearful fixations on past threats will often distract from the reality of new risks that are even more dangerous.	<ul style="list-style-type: none"> <li>• Reevaluate fears objectively, going beyond emotional responses, political considerations and past experiences to prioritize the real risks that are critical now, then evaluate decision scenarios to best overcome them.</li> </ul>
Facts offer refuge in times of uncertainty, but nostalgia for past performance is an unreliable source of insight into the future, especially during periods of rapid change and upheaval. Irrelevant, inaccurate or incomplete data only provides confirmation bias for inappropriate retrograde decisions.	<ul style="list-style-type: none"> <li>• Challenge past performance by gathering data that tests assumptions about future scenarios. Iteratively test and explore hypotheses by gathering fresh data on which to base more-innovative, fact-based decisions.</li> </ul>
Faith and confidence to invest in the future are in short supply during a crisis. People look for safe choices that confirm their preconceptions while challenging anything unfamiliar, new and innovative. But new and innovative investments are essential to building a more successful future.	<ul style="list-style-type: none"> <li>• Renew business confidence in the future as it evolves, instead of trying to re-create past practices that are no longer appropriate in a different and divergent present. Start small with exploratory investments to build a better future.</li> </ul>

Source: Gartner

## Impacts and Recommendations

### Fear Is a Healthy Emotion, but Can Also Have a More Insidious Influence on Decision Making in a Crisis

The obvious challenges, such as cash flow, rarely identify the real underlying risks and root causes. Yet many executives delegate their fears to direct reports without framing the underlying problem or issuing any guidance on how to address it. The results are predictable:

**Middle managers at an Asian automotive manufacturer responded with reckless obedience. They cut spending on new projects, even those about to generate much-needed cash. They also cut spending on projects that investors saw as creating value, in which they would have invested more.**

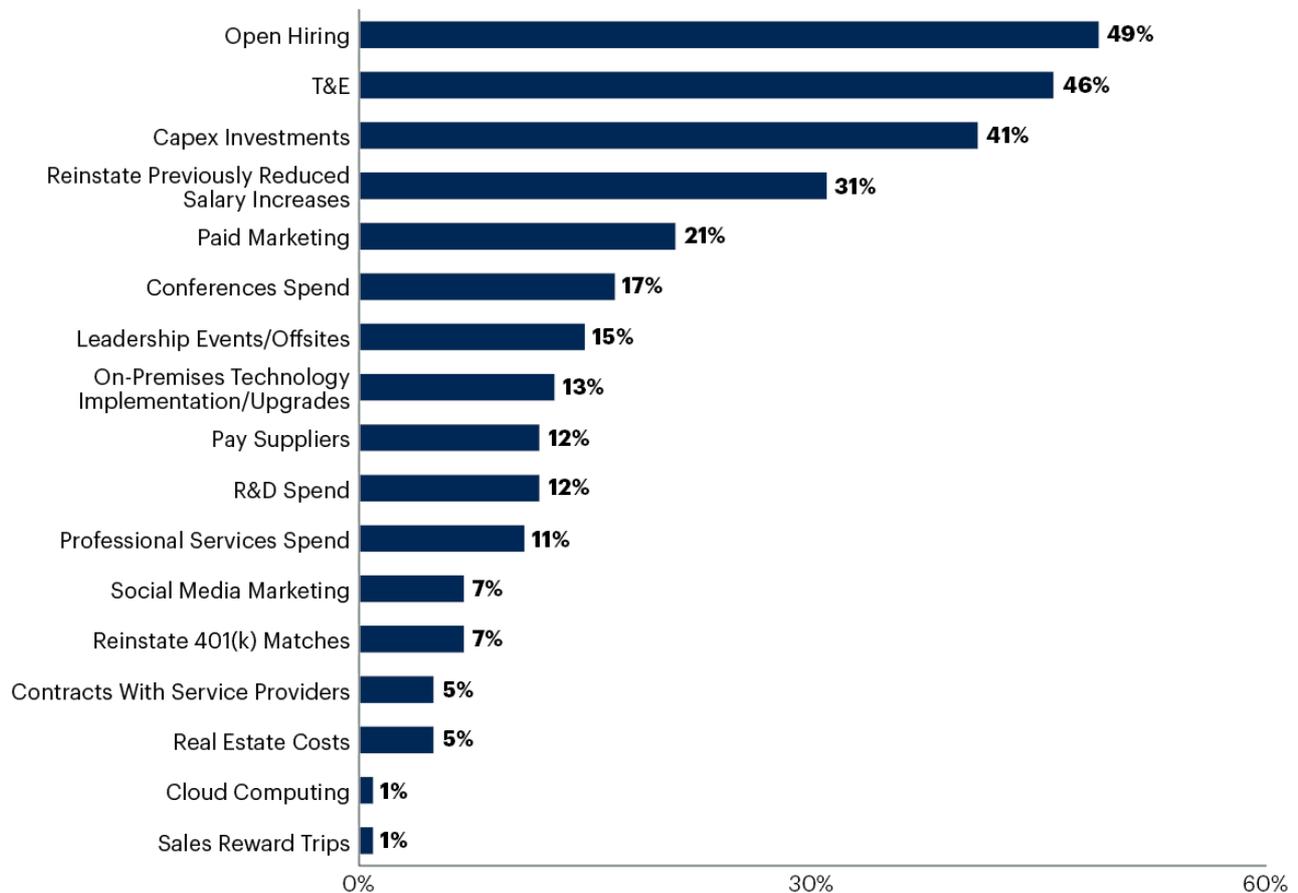
We can learn from courageous healthcare professionals working under extreme pressure on the front line of the COVID-19 pandemic. Their first focus has been to treat the most identifiable respiratory symptoms of SARS-CoV-2 infection. Ventilation is the established solution for severe respiratory difficulty. But as soon as the patient is stabilized, doctors run tests to diagnose and manage the risk of other potentially life-threatening conditions that are less easily detected, such as vascular damage in other organs and immune system overreactions.

Business leaders often cut new investments and changes as a way to stabilize the profitability of existing business activity. But when existing lines of business aren't delivering revenue as usual, it's no longer an effective solution to a problem that needs effective diagnosis. CFOs have since started looking to reverse many of the initial cuts they sought to stabilize cash flow, as shown in Figure 2.

**Figure 2. CFO Cost Cuts to Be Reversed**

## CFO Cost Cuts to Be Reversed

All Industries



n = 138

Q: What are the first three costs you will reintroduce if/when revenue begins to return? (Select exactly three.)

Source: Gartner COVID-19 Finance Quick Poll 29 April through 3 May (2020)

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Temporarily cutting expenditure is unlikely to differentiate the organization enough for investors. Everyone having an equally challenging year presents a unique opportunity to divest or write off legacy costs and to restructure for future success. Take full advantage of this rare opportunity to clean out unwanted corporate liabilities to ready for recovery and build a more positive story for investors.

### Recommendations:

Don't fear all spending; only fear spending on the wrong things. The epidemic hasn't increased many nonhealthcare business costs, only reduced the amount of cash coming in. Frame the problem accurately for a more-appropriate response: Prioritize and accelerate income-generating activities. Business activities that rely on consumer presence and human interaction need careful risk reassessment and investment in the safety of staff and customers. Deprioritize spend items that aren't delivering value, either as revenue or investments.

## Facts Offer Refuge in Times of Uncertainty, but Nostalgia for Past Performance Is an Unreliable Source of Insight Into the Future

Executives often report an excess of data and key performance indicators that rarely identify future improvement opportunities. A disclaimer can be found in almost every investment brochure that “past performance is not an indicator of future value.” Yet our decisions are often based on past performance.

**A negative experience of a poorly conceived technology project poisoned the perception of future technology spending at a government agency. Executives were reluctant to investigate the cause for fear of blame. Instead of expecting history to repeat, Gartner helped them to prevent past mistakes.**

Sales professionals are taught that executive decisions are made emotionally, then justified rationally. Economists continue to debate the Kübler-Ross model, commonly known as the “five stages of grief,” because people sometimes process them in a different order.

**Prominent enterprise leaders have publicly expressed denial and anger at the pandemic. This has often been followed by attempts at bargaining with suppliers, creditors, even colleagues.**

Tunnel vision is often reported in all situations of extreme stress. We become selective, filtering out all data that doesn't fit our preconceived ideas. We become biased toward the challenges we already identified and have a solution. We all know the following expression, but very few of us apply it in our work:

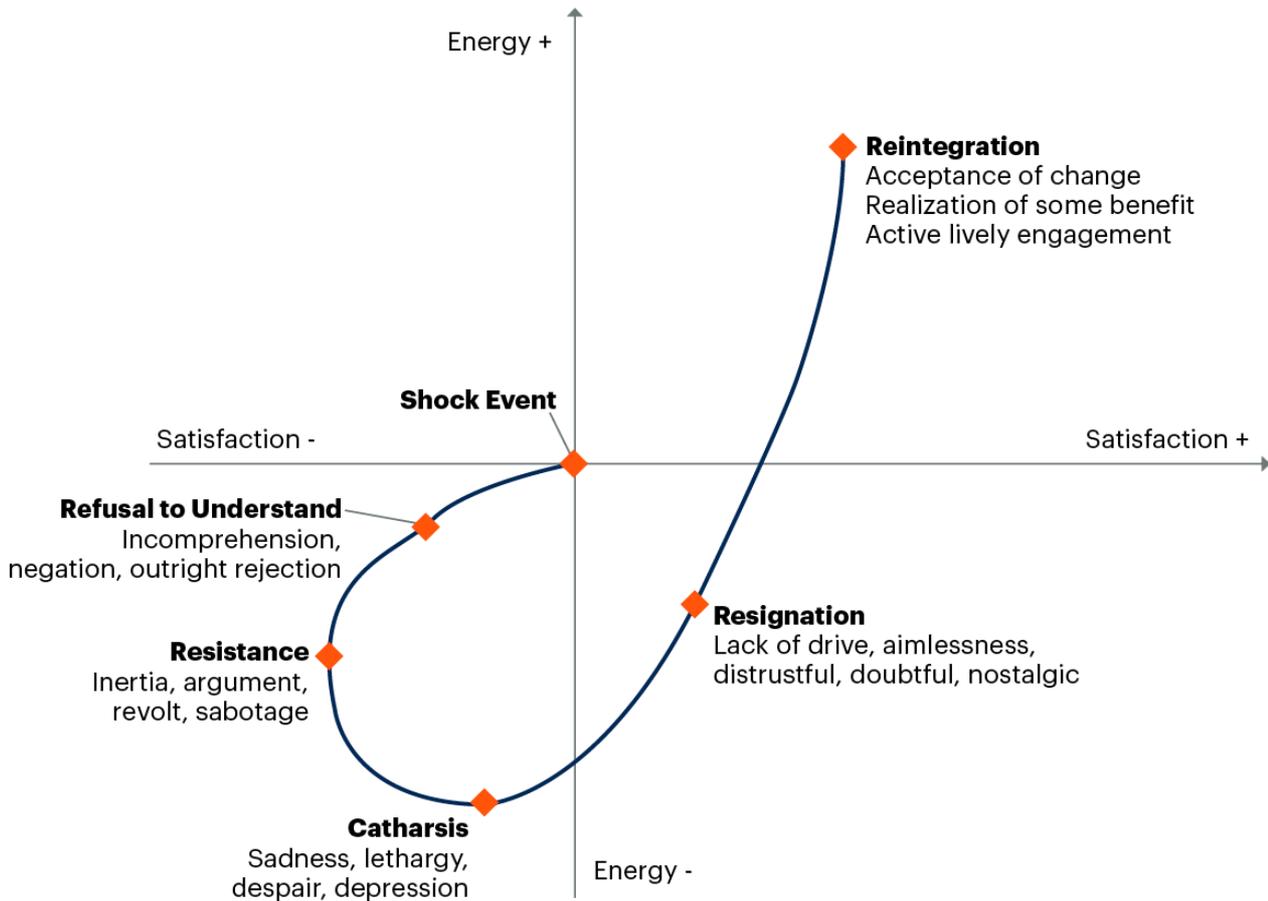
**“It is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.”**

— *Abraham H. Maslow in “Toward a Psychology of Being”*

Even when we accept new input, there can often be a long delay for emotional processing, as illustrated in Figure 3. Executives cannot afford this luxury and need to fully accept the facts and share the data with the teams dealing with the situation.

**Figure 3. A Model of Emotional Reaction to a Shock Event**

**A Model of Emotional Reaction to a Shock Event**



Source: Adapted From Kübler Ross grieving curve Bertrand GRONDIN

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*Recommendations:*

Openly discuss emotions and acknowledge how they can obstruct recovery toward a new normal. When dashboards light up, calmly silence the alarms and work through the diagnostics. Relying on “gut feel” will tell us we’re hungry, but not where to find food. We need better diagnostic information to earn revenue in new situations. Although we can’t get data back from the future to make every spending decision a certainty, we can detect early indicators of revenue recovery. Actively seek out more-useful data, but be wary of confirmation bias – interpreting data as a validation of preconceived ideas. Fresh data should adapt to change by challenging preconceptions as the fuel for innovation.

## Faith and Confidence to Invest in the Future Are in Short Supply During a Crisis

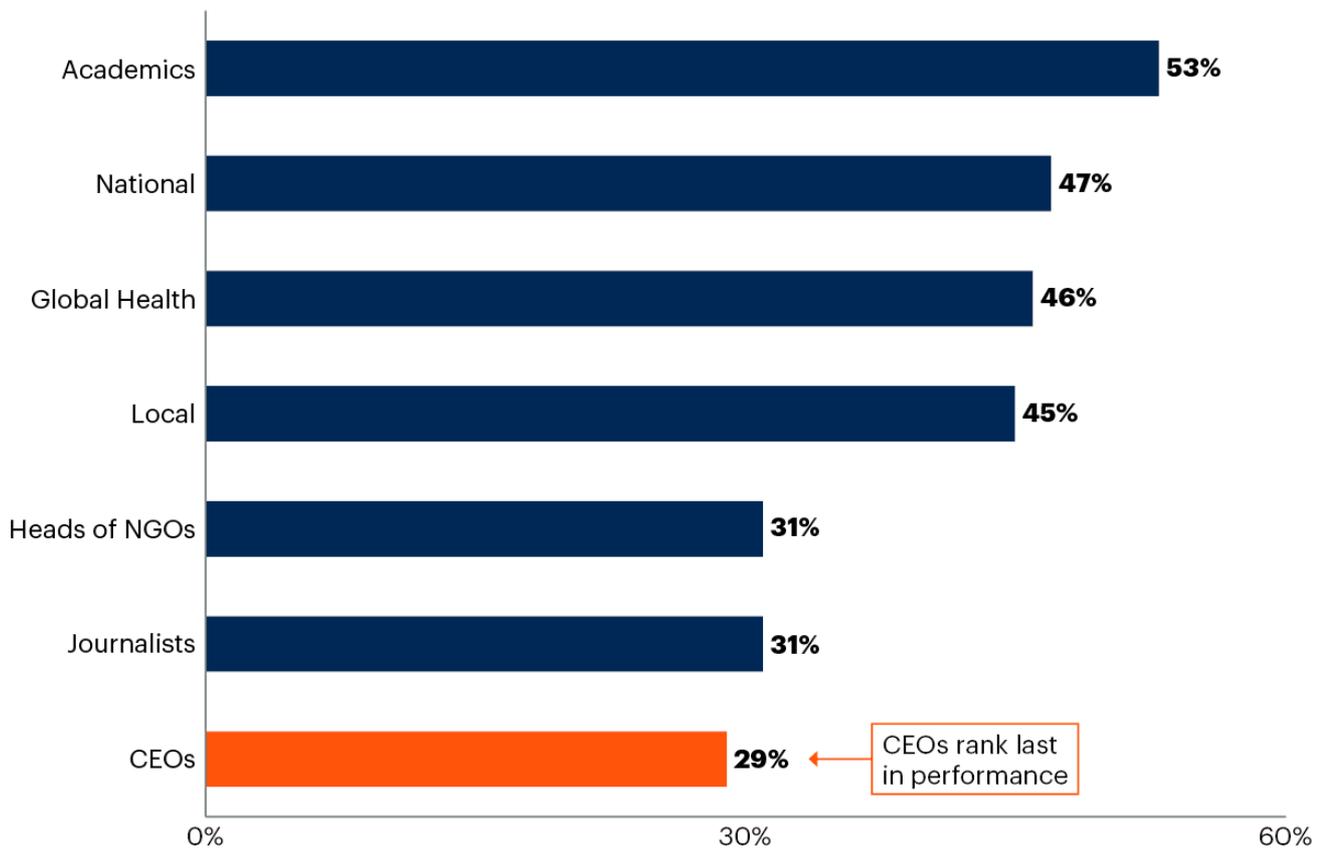
Under extreme stress, people can lose faith in the future, in their investments, in their organization and even in themselves. We become less likely to trust other people and question reciprocity and mutual self-interest. Having overcome fear and addressed the facts, we need to restore faith.

Without organization and leadership, survival becomes less likely. “Everyone for themselves” is a desperate last resort. It prioritizes the survival of a few individuals over that of the organization. Individuals create more value by working together. Our organizations, economic systems and financial currencies are all built on confidence in our ability to organize. Business confidence had already fallen sharply in 2019. <sup>4</sup> Figure 4 shows even lower public confidence in executive leaders.

**Figure 4. Public Confidence Survey Results**

### Public Confidence Survey Results

Percent Who Say Each Is Doing an Outstanding Job Meeting the Demands Placed on Them by the Pandemic



Source: Gartner  
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### Edelman Trust Barometer5

Restoring confidence is essential to maintaining organizational and economic cohesion. Our shared vision and values define how our organization will motivate and measure success. At a time when both the physical and emotional distances between us increase, leaders can use technology to find new and innovative ways of bringing people together around common goals

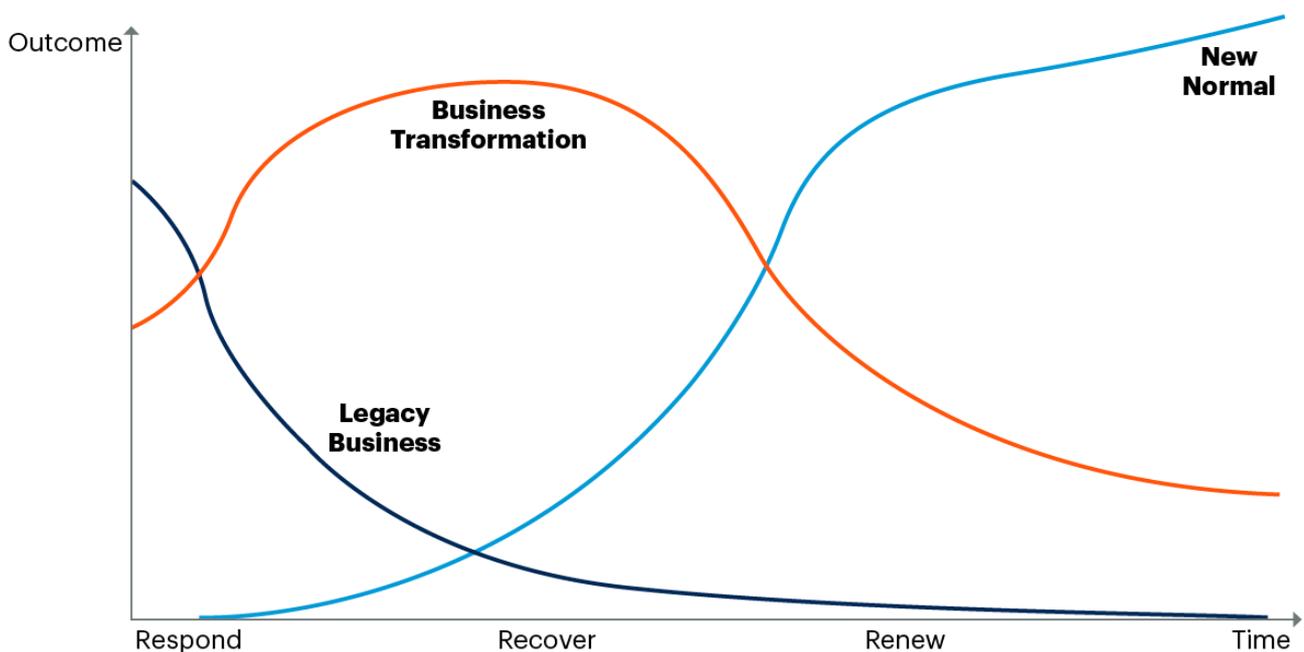
and credible objectives. Without organizing technology, none of us can work as effectively together.

Every period of change has been marked by some form of market correction, when success becomes relative and can no longer be benchmarked against “normal.” When revenue growth seems unrealistic in a contracting consumer market, focus on gaining market share or entering adjacent markets. If our business-to-business activities are relatively protected from consumer disruption, remember that some of the businesses we deal with may be less fortunate. Leaders who find opportunity in mutual, shared self-interest can extend the reach of their organizations without committing as much investment to a course of action.

When circumstances beyond our control prevent our organization from making investors wealthier, we can still preserve the relative value of their investments instead of writing them off. Everyone in the industry or same line of business will be experiencing similar challenges. Success isn’t simply measured in cash flow; new metrics become more important. In a contracting market, market share becomes even more important than revenue. As legacy business experiences diminishing returns, new transformations are needed until a new normal can be established, as illustrated in Figure 5.

**Figure 5. The Three Waves of Response, Recovery and Renewal**

**The Three Waves of Response, Recovery and Renewal**



Source: Gartner  
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Many of the least-impacted clients were already undergoing some form of digital business transformation. It’s unlikely to have been exactly the kind of transformation needed for a new normal, but organizations with forward-looking planning horizons have proved better able to adapt in the short, mid and long terms, as described in work such as “Three Horizons: The Patterning of

Hope” by Bill Sharp of the IFF. <sup>6</sup> Where existing business lines are no longer growing through conventional means, it’s time to take advantage of technology to try out and test our organization’s most innovative ideas. Start small so you have little to lose as you build new faith in your organization’s future.

### *Recommendations:*

Confront preconceptions in a challenging market. Overcome emotional reactions with a clearer business vision. Adapt to find the right balance between positive affirmation and realistic expectations: Inform those who fund and supply your organization. Enable others to make better investment decisions by identifying the real risks to their money. Build confidence that you’re best able to manage the risks through innovation. Start small, while getting ready to build big.

## **Evidence**

- <sup>1</sup> [“How COVID-19 Kills,”](#) ScienceDaily, and the [“Cytokine Storm: An Overreaction of the Body’s Immune System,”](#) NewScientist.
- <sup>2</sup> [“Nobel in Economics Is Awarded to Richard Thaler,”](#) The New York Times.
- <sup>3</sup> [“The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2013,”](#) The Nobel Prize.
- <sup>4</sup> [“The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2002,”](#) The Nobel Prize
- <sup>5</sup> [“CEO Confidence Declines Sharply,”](#) PR Newswire.
- <sup>6</sup> [“2020 Edelman Trust Barometer Spring Update: Trust and the Covid-19 Pandemic,”](#) Edelman.

## **Recommended by the Authors**

[Consider Fear-, Fact- and Faith-Based Investment Portfolios for Stakeholder Design of Digital Business](#)

[Avoiding Short-Sighted COVID-19 Indirect Spending Cuts](#)

[How to Budget for Trade War, Brexit and Economic Uncertainty](#)

[Executive Decision Making in the Time of COVID-19](#)

[Don’t Make Predictions and Choices, Instead Create Options by Using Scenario Planning for Pandemic Recovery](#)

[Don’t Survive, Thrive! Leverage Crises and Scarcities to Accelerate Business Innovation](#)

[How Data and Analytics Leaders Must Address Emotional Impacts to Foster a Data-Driven Culture](#)

[How to Discuss the Impacts of COVID-19 With the Investment Community](#)

[The Opportunity of Risk: Effective Risk Balancing in Financial Services](#)

[Lead Your Employees Through the Emotional Side of COVID-19](#)

[Prepare Now for Swift Investment in the COVID-19 Recovery](#)

## Recommended For You

[How CIOs Can Navigate Cost Optimization Amid COVID-19](#)

[Manage Risk in Crisis-Driven Decisions From Response Through to Recovery](#)

[Video: CIO Cost Management Planning in the Wake of COVID-19](#)

[Smarter Spending: An Overview](#)

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