Boards of directors in a time of crisis:

Some reflections on their challenges and responsibilities

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Abstract

The global pandemic and governments' reactions to the health crisis have generated an unprecedented paralysis of economic activity in most parts of the world. Companies that are the engine of economic growth in contemporary societies have seen their sales and manufacturing activities significantly reduced. Unemployment is soaring. If the current situation lasts longer than initially expected, many companies will not only have liquidity problems, but also solvency problems. Many firms' survival is in jeopardy. What role boards of directors should play in this context? Which priorities should the board of directors establish to tackle this challenge?

Goals of the board of directors in the current context

In the current economic and social context, boards of directors should focus on three major goals:

- The board should work to help the company survive during this crisis and help develop the company for the long term.
- The board should support the CEO and the senior management team and help them make sure that the goals of survival and long-term development are feasible.
- The board should help improve the reputation of the company through the crisis with decisions that are professional and ethical. Opportunistic behavior should be avoided in all circumstances.

Some governance criteria for board of directors

With the goals clearly established, boards of directors should define some governance criteria for the current context:

- Employees and customers' safety are the first priority. The board should monitor the policies adopted in this respect.

- Board members should consider again the responsibilities that they have with the company as an organization, its management, its people, its shareholders and the different stakeholders.
- Board members should stay often in touch with the Chairman and the CEO. In particular, they should offer the CEO their support and reflections, particularly useful in this time. Board members should not forget that the board of directors does not manage the company: the CEO and senior managers have the responsibility to manage the company.
- The board should help the CEO and the senior management team to organize well for a crisis that may be longer than expected, by setting up the right teams that will deal with key stakeholders and areas: people, customers, finance, and IT and operations, among others.
- The CEO should not manage these teams. A senior executive should be in charge. The CEO and the senior management team should have the holistic view of the organization, think about the future, oversee and coordinate the teams, determine the priorities and action plans, and monitor execution.

Some boards' tasks with a special relevance

The board, led by its Chairman, should undertake some specific tasks that gain special relevance in the context of the Covid-19 crisis:

- In particular, in this crisis, board members should help contribute to guarantee the positive engagement of employees. It is always a board's duty to oversee people's policy. In this very special context, employees will be take care of customers, will be a source of new ideas for the company and may help tackle many problems as they appear. People's engagement is more important than ever. The board should not manage it, but should care and ask about it.
- This crisis is changing scenarios, assumptions and forecasts. The Chairman is responsible to adapt the board agenda, the company's priorities and decisions to this new reality. The Chairman should work with the CEO and other board members on this key priority.
- The Chairman should work with the board and the CEO to adjust the firm's goals, strategy and policies to this new reality.
- With the CEO and the CFO, the board should stress-test cash balances, at least for the next 6-12 months, depending on the industry and the company's specific perspectives and strength. Liquidity problems come now, but if the

crisis lasts longer than initially expected, solvency problems will appear later. The board should also work on a really negative "worst-case scenario", in the case that it appears in the next few months. It should think about the actions that it could take to make sure the firm's survival. "What if?" questions are really important for boards in this still unknown crisis.

- The Chair and the CEO should engage shareholders in a pro-active way during the crisis and communicate with them as often as possible, avoiding the disclosure of specific information, that are not allowed to do. Nevertheless, counting on shareholders' support is essential and a crisis is a great opportunity to increase the trust between shareholders and the board of directors.
- The board of listed companies should monitor investors buying a significant number of shares and understand their long-term intentions. Activist investors are exploring potential opportunities in companies whose share price has decreased significantly. Some activist investors and other hedge funds may not be the right partners for a company in this time of crisis.

The board and the company's strategy

Corporate strategy is an area where the board of directors and the CEO have to work together in close collaboration. When a crisis develops, this collaboration is more important. In particular, the board of directors should consider the following practices and ideas:

- Assess very early in a formal session with the CEO how to adjust the company's strategy, P&L, cash flows, debt policy, investment and other decisions to the new normal.
- As in other circumstances and unexpected events, the board should understand and assess the impact of the coronavirus crisis on the business and its performance. Major functions (sales, operations, sourcing, IT) will be disrupted or affected. Expect much lower revenues for the next 12 months, at least. Performance will deteriorate. The CEO needs the support of the board in adjusting the company to the new reality.
- Determine which elements of the current strategy need to change: from sourcing to pricing, product variety or geographies. This is not a time to

completely redefine a new strategy, but a time to adjust and make sure that the company can work in this new scenario.

- A crisis is an opportunity to think about how customers' needs will change, along the crisis and after the crisis. In most industries, there will be new opportunities to innovate and serve customers in new ways. This is also a time not only for refocusing and restructuring, but also for innovation and sowing the seeds of the future of the company. The board should work with the CEO to help the whole company become more entrepreneurial and innovative in facing their current challenges, and think about new opportunities to serve customers in the future.
- The board should have a clear roadmap on how the CEO and the senior management team will handle the crisis from a strategy viewpoint: what will stay and what will change in the way the firm serves its customers. It also should consider the messages that the CEO will share with employees, customers, shareholders and other stakeholders. This should be reviewed when new information appears or when the firm needs it to adjust to a new context.
- Strategic decisions that were already approved and were not implemented, even if they have funding, should be reviewed again under this new scenario.

Finance, economic performance and shareholders

Boards should monitor carefully the financial situation and performance of the firm, making sure that capital allocation and operational expenses are adjusted to the new context. In particular, the board of directors should consider:

- Make sure the CFO has assessed with prudence the levels of liquidity the company has and the levels it needs over, at least, the next 12 months. Stress-test liquidity. Make sure the CEO and the CFO have a plan for it. Work with different scenarios, including the worst-case one.
- Encourage the CEO and the CFO to start conversations with banks as soon as possible. Help prepare two scenarios for leading banks and start the conversations soon.

- The board should work with the Chair and the CEO with the set of new KPIs to follow in this crisis. Establish with the Chair and the CEO new ways to report to board members. The monthly P&L and financial reporting is not enough in this context.
- Review dividend policies and compensation plans that are consistent with the new situation and the need to conserve cash. Dividends may need to be postponed or frozen in most companies, even in profitable ones.
- Rethink the best financial structure for the company in the current situation and the structure of ownership. Think about the investors the company would like to have at the end of the crisis, in particular, when the company needs long-term investors.

Communication with your people, customers, shareholders and other stakeholders

The board should not get involved in corporate communications, but should make sure that the CEO has a comprehensive, consistent plan, with coherent messages, that includes all shareholders. In particular, the board should consider these dimensions:

- Make sure that the Chair or the CEO speak and inform key shareholders about the situation, always following disclosure rules.
- Corporate communication is the CEO and senior management team responsibility.
- Help the CEO in organizing and communicating with employees, customers, suppliers, banks, shareholders and other stakeholders on the firm's policies to deal with the crisis. Clear and candid communication is indispensable and needs to be done on a regular basis. People will appreciate an ongoing process of information on the company and the initiatives to overcome the crisis.
- Compliance is always important. Make sure that the company is following new laws, rules and policies from authorities in this crisis.

Some final reflections

Companies are going through an unprecedented crisis. In this context, corporate survival becomes the central priority. As boards of directors have the responsibility to care about the firm's long-term development, their work acquires a greater significance.

In this brief paper, I have summarized some basic goals, governance criteria and key tasks and activities that fall into the areas of responsibility of boards of directors. In this crisis, many of them acquire new dimensions and require quick and effective actions by the board of directors.

The quality of the work of the board of directors can be extremely helpful for the company's survival in this crisis. More important, a good board of directors will help the firm navigate through the crisis, unite the senior management team around common goals and policies, engage employees, and strengthen the firm's reputation and its credibility for good governance.