

22 July 2020
Bertrand Richard

SpencerStuart

The Effects of Covid-19 on Boards and Governance Preliminary Report



Contents

Introduction: Purpose of this Survey.....	2
I. Executive Summary.....	3
II. Covid-19 and Risk Mapping.....	6
III. Covid-19 and Board Functioning.....	9
A) Board behavior	9
B) Relation between the Board and the management	13
C) Information of the Board	16
D) Effects of Covid-19 on Leadership.....	18
E) Effects on communication.....	20
IV. Boards' response to the crisis.....	22
Appendix.....	25

Introduction: Purpose of this Survey

In the context of an unexpected event such as the Covid-19 crisis, boards entered uncharted territory and, with management, had to show their ability to overcome a crisis of an unprecedented magnitude.

To understand how the boards reacted, INSEAD and Spencer Stuart launched a survey of 2,000 board members mainly based in Europe.

The present report outlines the initial findings and covers the following:

- What are the lessons for boards of directors?
- Risk mapping
- Crisis management
- Board role and leadership

I. Executive Summary

1) Covid-19 severely challenged the risk and crisis management of many companies.

- It was the first time that an external event triggered a combination of risks which were previously considered as independent:
 1. Health and safety
 2. Discontinuity of supply
 3. Decline of stock price
 4. Drop in sales
 5. Treasury gap
- Economies were not impacted by the pandemic *per se* but by the decision of governments to control the pandemic through a global lockdown, which had an immediate impact on the level of activity of the worldwide economy.
- In some cases, the top management was also physically impacted and consequently unable to play its role, which could have not been considered in the matrix of risks.
- Crisis management ability was tested in real life with potential lethal consequences for some companies.

2) Covid-19 consequences differed between industries with those severely impacted (airlines, travel, automotive, retail) and those benefiting from the lockdown (GAFA, food). All companies were not equally positioned in the fight against Covid-19.

3) Covid-19 amplified the strengths and the weaknesses of Boards and managements. Some entered the crisis in better shape than others and were better prepared to fight thanks to efficient governance. Some revealed either their potential or their fragility in dealing with the crisis.

4) Covid-19 was a real acid test of:

- Board cohesion and solidarity
- The trust the Board has in the management's ability to deal with a crisis
- The self-control and maturity of the Board and the management
- The efficiency of its crisis management tools and processes
- The ability to seize opportunities, for example, by taking over competitors in trouble
- The robustness of succession planning
- The employees' engagement

5) This global crisis had two meanings for Boards and managements:

- One being *danger*:
 1. Protecting the balance sheet and the activity;
 2. Taking care of its people and securing the permanence of the management;
 3. Piloting the stock price, profitability and liquidity;
 4. Taking care of clients and suppliers and securing the supply chain;
 5. Protecting against raiders;
 6. Managing potential conflict between the interests of the company and the interests of the shareholders.
- One being *opportunity* to be overseen by the Board in a second phase:
 1. After making sure that the company knows how to adequately react, anticipating the changes that the crisis will require going forward;
 2. Preparing the crisis exit;
 3. Taking advantage of the opportunities presented by the crisis;
 4. Rethinking the business model, the purpose of the company and the strategy.

6) Covid-19 highlighted what makes a board successful in dealing with such a crisis:

- Permanently challenging its crisis management processes by thinking the unthinkable and using scenario analysis rather than only relying on existing processes.
- Testing the behavior of the board in its ability to work under stress and deteriorated working conditions:
 1. Focusing on the immediate issues without getting lost in details;
 2. Staying unified and ensuring consistency of the overall decisions between the short term and the long term;
 3. Working efficiently with the management with an adequate and clean division of responsibilities between the two bodies without overloading the former with unrealistic demands of the latter, slowing down the decision process;
 4. Getting used to working remotely with secured communication facilities;
 5. Celebrating success of the management;
 6. Reimagining the future.
- Having clear leadership at the board level which means a chairman *really* playing his role but *only* his role;
- Establishing adequate communication within the board and between the board and management, the external communication of the company remaining a management duty;
- Providing emotional support to the management and to the employees and being supportive. Assessment of the performance will come later – crisis is not the right time to change the CEO;
- Making sure that in dealing with the crisis, the management remains consistent with the company's values.

7) Covid-19 highlighted what makes a successful chair, one who:

- Must always be prepared to guide the board through the unexpected. Even if the crisis could have been foreseen, the response to it was not;
- Should provide emotional support to the CEO and the management team by avoiding a situation in which board members bother them with unnecessary demands, and make sure that they focus on the right issues. The role of the Chair is to help raise the game of the executives;
- Should show real self-control and ability to calm the debate when the company is put under stress;
- Should make sure that the Board stays united and that no Board members are left behind;
- Should make sure that a well-articulated and compelling purpose is defined by the Board.

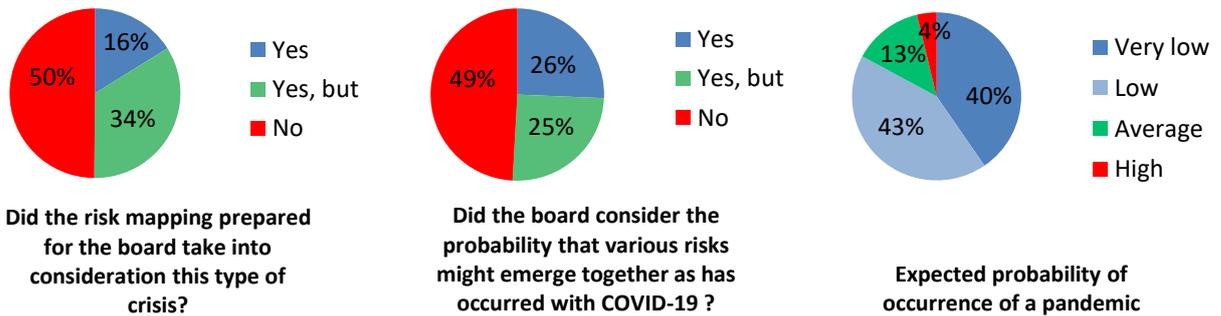
8) What are the lessons for the future?

- The Board should revisit the robustness of its processes
 1. In terms of Board operations in:
 - Giving a clear mandate to the management by clearly defining the division of roles with the board
 - Challenging the risk mapping and the scenarios of the future
 - Running an emergency plan
 - Working under stress
 - Creating a safe space for the management without negative emotions
 - Planning potential successions
 - Operating new communication channels with high security standard
 2. In terms of relations with the shareholders and stakeholders
 - Shareholder support (dividend policy)
 - Protection against raiders
 - Relations with employees
 3. In terms of business model, strategy and succession planning: frame the post crisis strategy to safeguard the future
- The Chair's performance in dealing with the crisis should be assessed on his ability to:
 1. Align the board and the management
 2. Position the board at the right level and keep it united
 3. Support and help the CEO
 4. Keep an eye on the future
- The Board should support the management during the peak of the crisis. Analysis of his performance will come later.

9) In conclusion, the crisis challenged the Board more on its attitude than on its role and duties.

II. Covid-19 and Risk Mapping

“The total collapse was not in our risk mapping.”



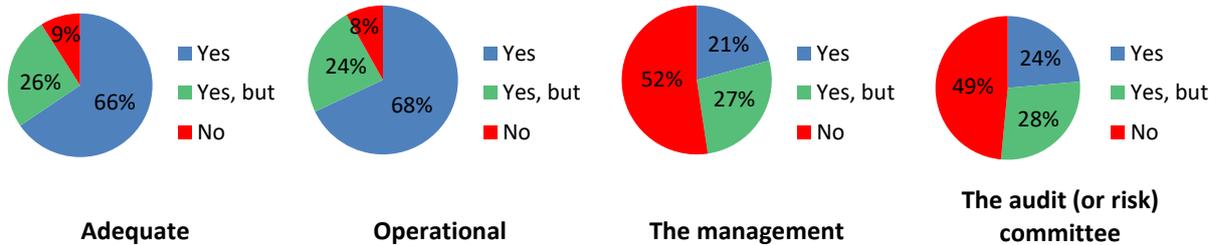
- **Even if most of them were comfortable with their risk mapping, 84% of Boards acknowledge that they did not envisage such an economic crisis caused by a pandemic**, because it was identified as a low probability health risk. It was not seen as a potential economic risk because no one thought that it would lead to a global lockdown which stopped most of the world’s economies.
- **Amongst those that considered it more seriously, most of them had operations in Asia** where they had to deal with SARS a few years earlier and were able to better understand at the early stage what was happening in China.
- **Macroeconomic, financial crisis, operational and market risks were taken into consideration but never linked to a pandemic.** The various risks were mainly identified separately instead of in combination, and the emergency plans were not designed to face them simultaneously.
- **The speed, the magnitude of propagation and the scale of the pandemic were underestimated and were a surprise for most of the Boards.** Even if many companies tested their operational resilience, none of them expected such a high proportion of staff unable to go to work; consequently, the business continuity plans were not able to address an issue of this scale.

“While we always prepare for simultaneous risk occurrence, the scope and magnitude of this combined economic and pandemic crisis was unprecedented and required adjustment as the magnitude and scope moved across the globe. The pandemic impacts allowed lessons learned to be transferred from our region to a new impacted region as it emerged.”

- **For instance, the non-access to plants and the failure of suppliers to deliver were considered on a country basis or at most on a regional basis but never globally.**
- **Some companies which had recorded a pandemic as a potential risk for many years stopped considering it because it had never occurred, and thus were taken by surprise when it did.**

- The lockdown was a real-life test for IT systems, which had to support remote ways of working with all the consequences in terms of telecom capacity and cybersecurity.
- Since the pandemic was a low-probability event, the global impact was underestimated by most of the companies, although they felt that their risk and crisis management procedures were globally adequate.

“We need to focus more on impact and how to react than only on the description of the risk.”
“Procedures were not fully adequate, but management and team reacted quickly on priority issues.”



In the face of COVID-19, would you say that the existing crisis management procedures were adequate and operational enough?

In light of such an experience, would you say that the board should have challenged more candidly the way risk and crisis management were handled by management and audit (or risk) committee?

- Risk management procedures were generally in place, but the crisis management procedures and continuity plan had to be adjusted in view of the magnitude and complexity of the crisis. The question was not whether the company had the right procedures but how it reacted and adjusted them. Most of the interviewees were impressed by the agility and the responsiveness of their management.

Learnings on Risk Management

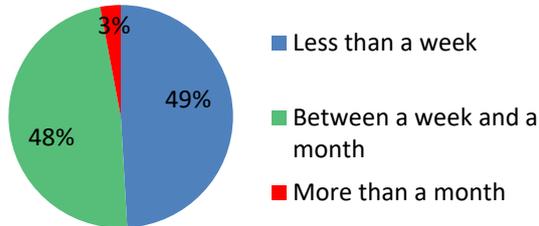
- Only very few companies seriously took into consideration the economic consequences of a pandemic because nobody expected to have so many risks simultaneously triggering and to have governments ordering a global lockdown and companies ordering plant closings for such a long period of time as an answer to the pandemic.
- The best prepared companies were those having dealt before with the SARS pandemic and those whose operations in China helped to detect the initial signals of the crisis.
- Most of the Boards are quite happy with how the crisis management was handled by their management since, even if the scenario was different from reality, they showed good agility to adapt.
- The key lessons of this crisis are:
 1. Risk mapping, crisis management and business resilience will have to be reconsidered in light of past events and now building crisis scenarios associating different risks will become critical, taking into account the impact of simultaneous events and interconnections.
 2. The best way to survive is more in the speed of reaction than in the ability to forecast the right events.
 3. The world is much more connected and interdependent than was generally considered, which should be taken into account in risk management.
 4. Take a holistic risk assessment and management approach to complement the silos and bottom up approach mainly used to date. Risk analysis should be less based on models and more on common sense, macro-economic and political analysis by accepting that the future is never the simple repetition of the past. Scenario planning should be the new methodology to prevent and respond to unforeseen crises.
 5. In crisis management, agility and reactivity appear to be more efficient than only preconceived processes. Facing unforeseen risks, Boards and management should train themselves on how to react when taken by surprise and list the best practices tested during this Covid-19 crisis.

III. Covid-19 and Board Functioning

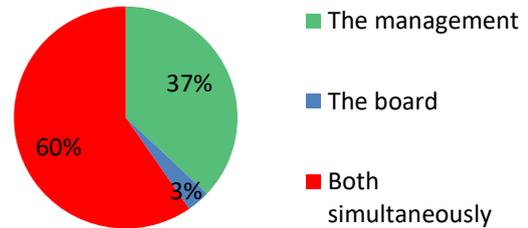
A) Board behavior

- **Boards reacted very quickly to the crisis, half of them taking action within a week, the others taking a few weeks but less than a month and in most cases, the reaction was initiated by the management with the support of the Board.**

How long did the board take to realize the magnitude of the crisis?



Who was the first to react?



“Thanks to a fluid interaction between board and management, the former was quickly involved in the decision process”

“Ad hoc Board meetings were called, and Board members made themselves available”

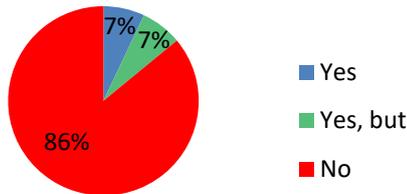
“United in inaction except for the safety aspect, apart from a couple of non-execs with deep corporate crisis management experience”

- **Boards had to take difficult decisions**, with not all Board members always agreeing but when the decision was taken, **solidarity became the rule.**

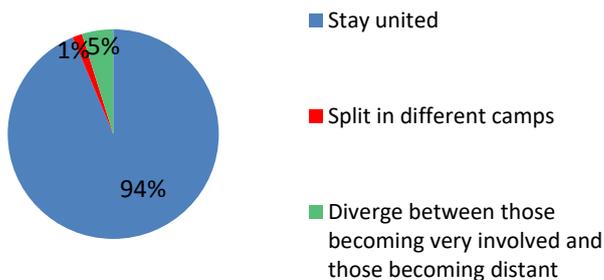
“The management took the lead in the operational and financial aspects of the crisis as it should have in a time of required agility and reactivity, with the Board keeping a more long-term view.”

- **Thus, despite its magnitude, the crisis did not break Board unity, with no significant difference of opinion between local and foreign Board members.** In some cases, international Board members had a more global view and realized more quickly the magnitude of the crisis.

Did you notice a difference of reaction between local board members and foreign board members?



In dealing with this exceptional situation, did the board...



“Foreign board members were more conscious and also more demanding on proactive steps with higher sense of urgency”

“The Board stayed united, constructive and supportive of the management who was fully in command, even if appreciation of their impact could differ amongst members”

“The French and Italians reacted faster”

“US Board members were still behind the curve”

“Difference of reactions is not perceived as a disadvantage but as enrichment”

“Divergence could have occurred but not on the way to deal with the situation”

- **Committee members, such as those on the Audit and Risk committee, were more involved due to their expected role.**
- **In a few extreme cases, when the survival of the company was at stake, some people may have distanced themselves to protect their reputation if they found the situation too risky, but this was the exception.**
- **From the perspective of their colleagues, employee representatives behaved more as Board members than as employees, even if they were very concerned by the health consequences of Covid-19.**

How did the employee board members react?



“Our employee representatives were very professional and collaborative in the way they behaved”

“Their two main concerns were health safety and protection of the company, in that respect, with a focus on dividend reduction”

Lessons on Board Behavior

- In most cases, the Board and the management were quick to react and stayed united in dealing with the crisis. Except in very specific cases, management were supported by Boards, and the crisis was not perceived as the time to change management.
- A very large majority of Board members stayed very supportive of the management because the latter kept them very well informed from the early stage of the crisis. The cooperation was constructive and efficient, and most Board members found that team spirit improved during the crisis.
- Risk and Audit committee members were naturally more involved than the other members.
- There was no real difference of attitude and reaction between local and foreign Board members in dealing with the crisis. Board members with strong international experience may have been quicker to understand the consequences. However, it appears that the Southern Europeans were more sensitive to the consequences of the crisis than the Northern Europeans or the Americans. This could be explained by the fact that the crisis was more serious in this part of the world when the study was completed.
- In dealing with the crisis, the diversity of the Board composition was clearly seen as a strength, because the sensitivity to the situation was not the same from one region to another.
- Employee representatives behaved very professionally, keeping at the forefront of their minds the health and safety of employees and the protection of the company.

B) Relation between the Board and the management

- In most cases, the cooperation and relations between the Board and the management were reinforced by the crisis through more contact and more open debates on the consequences of the crisis and the answers to be given.

Was there a change in how the non-executive board and the management related to each other ?



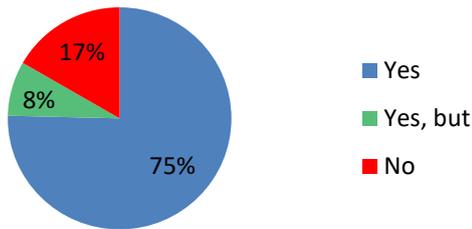
“Being a team is critical to weathering such storms. Team spirit with the management was built during peaceful times and reinforced through open debates during the crisis”

“With more frequent interactions, we ensured that the management felt properly supported, and Board members comfortable with the decisions taken”

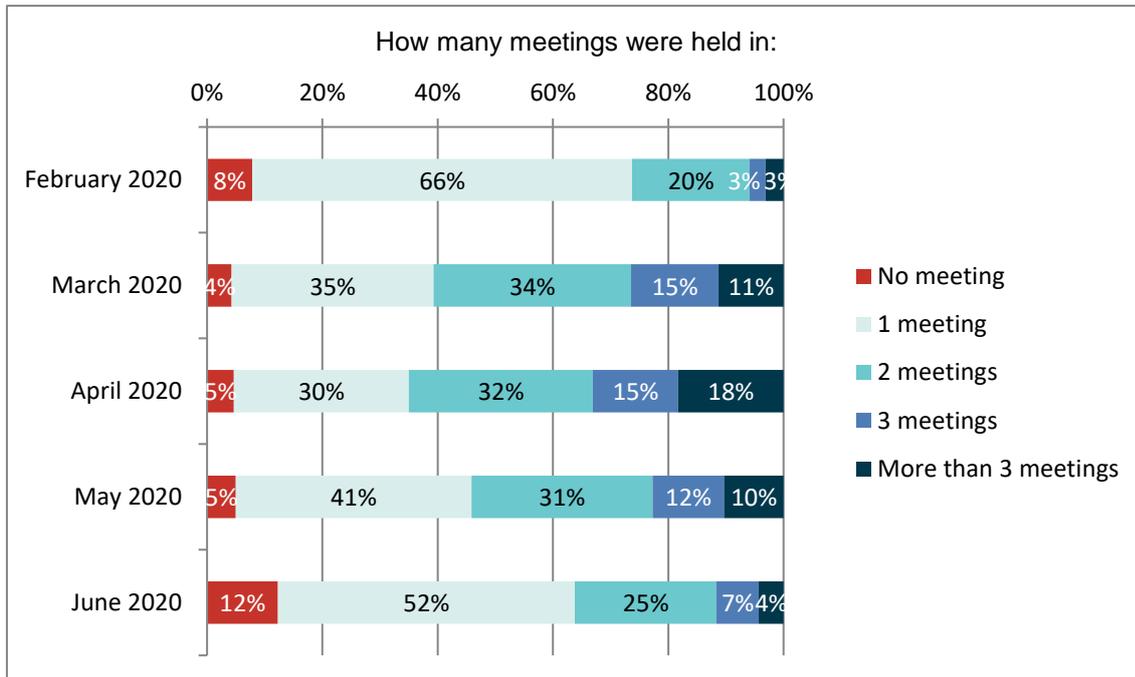
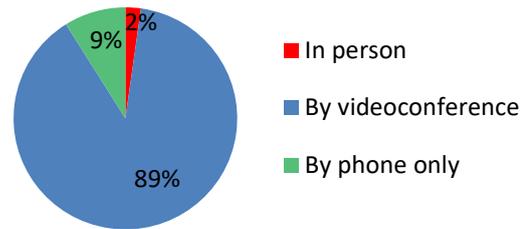
“No change in the style but a lot of new questions based on the operational management of the crisis”

- Some boards became more hands-on and less strategic although some others made sure to keep an eye on the future when the management was dealing with the day-to-day operations.
- The number of Board meetings, which were all held by videoconference, increased, and the peak was reached in April, followed by a return to normal in June.

Did the number of meetings increase?



How were the meetings held ?

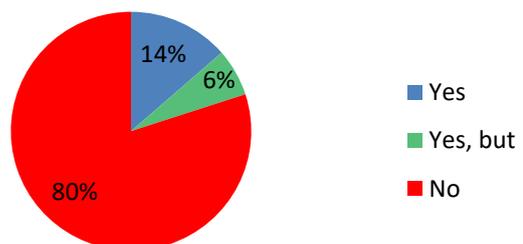


- **58% of Boards did not appoint any specific task force to deal with the crisis, considering that one of its inherent duties, and believing that appointing a task force would complicate the process with the management. 27% created a specific task force, and 13% appointed the Risk or the Audit committee to deal with it without specifically extending the role of the committee.**

Was a specific task force created for monitoring the plan or was it attributed to one of the committees?



Did the committees extend their role, taking on new responsibilities/tasks?



“A task force was created at management level and not at board level”

“The Board did not create a specific committee, but the management did”

“The Board felt that it should directly deal with the crisis but with all its members involved”

“Work was spread across all committees according to their expertise”

“The full Board remained in charge of overseeing the action taken by the management which was clearly on the front line”

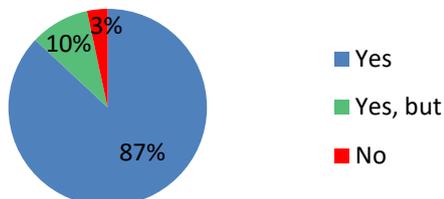
Learnings on relations between the Board and the management

- In most cases, the crisis strengthened the relation between the Board and the management who stayed united to face it, with a more engaged Board (more meetings and more communication).
- The lead was clearly and normally taken by the management with clearly stated support, a stronger engagement from the board and more detailed reporting from the management.
- When there was divergence between Board and management or when the Board felt that the management was not adequately answering the problems, the change of management was not the favorite response of the Board because it could have caused additional damage. The decision was postponed to better times.
- A majority of Boards did not delegate to a specific task force or to one of its committee the task to deal with the crisis because this was considered a duty of the full Board.

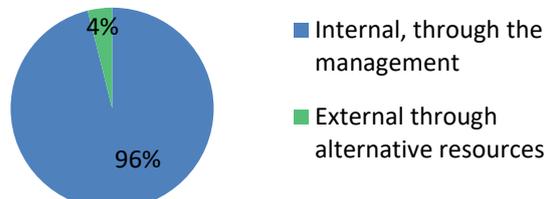
C) Information of the Board

- **The management immediately understood that in such a context, Board members needed to receive adequate information and without distinction amongst themselves, whatever their roles were.**

Was the management conscious of the need for specific additional information by the board members?



How did the board to secure its access to information?

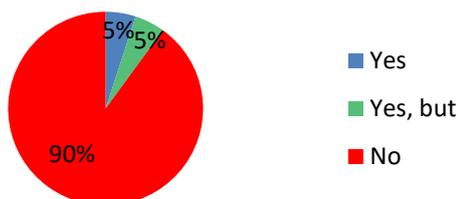


“The Board had to figure out the impact of the crisis on: Employee health, Sales, Treasury and liquidity, Profitability, Contingency plans”

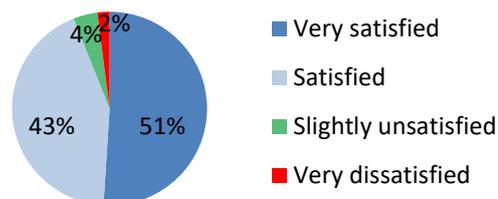
“All the Chairman’s reports to the Board, regular updates on the situation were sent by mail”

- **The specific information which was shared with board members included, for instance:**
 1. Weekly reports on the health of staff, treasury, operations, logistics, sales, risks, plant closures
 2. Scenarios and stress tests on P&L, treasury and liquidity with their impact on strategy
 3. Evolution of the situation, country by country
 4. Continuity plan
 5. Cybersecurity on communication
- **Many Boards were keen not to overload management with too many demands or questions,** especially because they felt they had no real problem being kept informed.

Did the board have challenges accessing information?

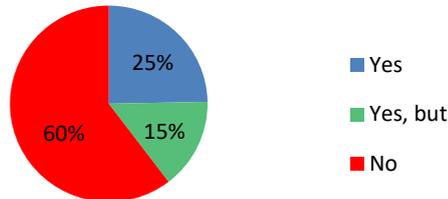


Were you satisfied as a board member by the way you were kept informed?

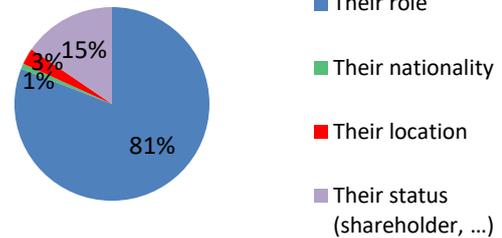


“The management being fully dedicated to solving the problems generated by the crisis, our concern was to not distract them. So, we did not ask for more information than in normal time”

- All Board members were treated equally in terms of access to information by the management and the Board members mainly relied on the information provided by the management they trust.



Did some board members receive more information than others?



And if so, what was the differentiating or explaining factor?

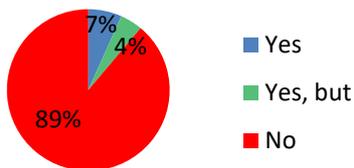
Learnings on how Boards were kept informed

- Management quickly understood that the Board must be kept precisely and regularly informed on the short-term impact of the crisis.
- The large majority of Boards did not have problems accessing information.
- Reports were done weekly or biweekly along with an increase in the number of Board meetings.
- Boards were keen to receive scenarios, stress tests on the activity, and reports on employee health and protection.
- Boards were also keen not to overload management with too many information requests, the priority being to let the management do its job.
- Board members were treated equally in terms of access to information provided by management, which they candidly trusted.

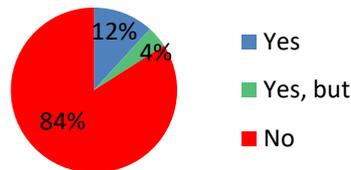
D) Effects of Covid-19 on Leadership

- The crisis management did not bring any change in leadership between the Board and the management. The division of roles was not challenged, there were just more interactions, more work for both, and more involvement of the Chairman in communicating with Board members.

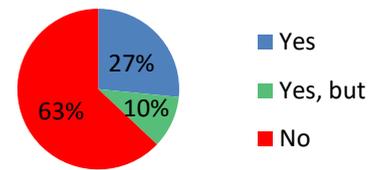
Did the split of responsibilities assigned to the management and to the board change under COVID-19 pressure?



Did a group of board members take the lead within the board ?



Did the management change its organization and/or structure to adapt to the new situation?



“There were more shared responsibilities between the Board and the management”

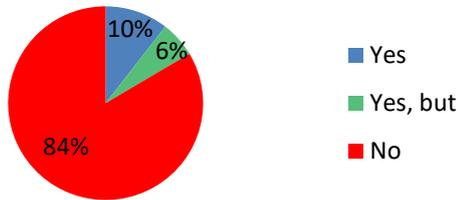
“The crisis had more impact on the functioning of the leadership team than the Board with, in many cases, the set-up of a crisis taskforce which may have changed the ExCo rules of functioning”

“The management organization was flattened”

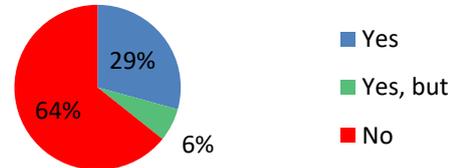
- Committees were more solicited, especially at the beginning for the Audit and Risk to assess the impact of the crisis, and then for the Strategy committee when the Board had to assess the impact in the long term.
- When a CEO transition was already underway, the crisis was an acid test of the successor’s ability to take the reins and be immediately operational and relevant.
- When a war room was created to deal with the crisis, it was done at management level and not at Board level, which is consistent with the normal division of roles between management and supervisory duties.

- **In a few cases, the role of chairman was expanded, mainly for communication matters and teamwork with the CEO.**

Was the chairman's role extended to new areas?



Did the chairman oversee a change in relationship between the board and the management ?



"The Chairman was more involved in communicating with the rest of the Board and with stakeholders than in normal times"

"The Chairman was continuously kept informed and closely followed up decisions taken"

- **Within the Board, there was no real change of leadership and no significant increase of authority of senior or influential members**, even if those having already gone through crises were listened to more, and committees' chairmen were more involved.

Learnings on leadership

- The crisis did not really put more stress on the balance of power and roles within the Board and with the management even if the Chairmen and the committee chairmen had to be more involved and present.
- The only change was closer communication between the Chairmen and the CEOs and between the Chairmen and Board members.

E) Effects on communication

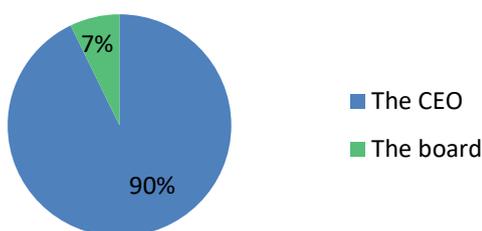
- **The need to inform Board members on the crisis combined with the lockdown, required Boards to adapt their communication tools with:**
 1. a switch from physical to virtual meetings;
 2. an increase of the number of meetings, which differed from one company to another, ranging from weekly for some to only monthly for others;
 3. a regular flow of information sent through the usual internet communication software used by Boards (Board Notes, Diligent, Board Vantage, Brainloop, etc.);

- **The main communication tools used were:**
 1. Conference calls;
 2. Video conferences;
 3. MS Teams;
 4. Skype;
 5. Webex;
 6. Zoom.

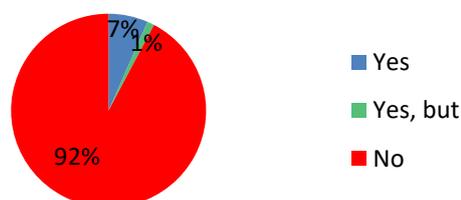
- **One of the challenges was to provide high security standards and protection for those communications, some companies using secured lines.**

- **The communication plan was led by the CEO and the management in coordination with the Chairman and without a specific appointed external advisor.**

Who led the communication plan?

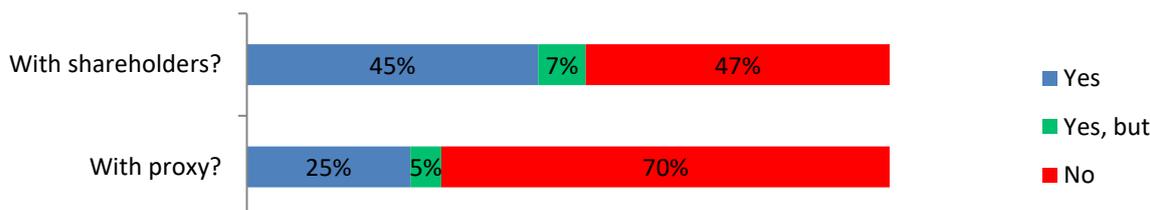


Did the company appoint a specific advisor to pilot the crisis communication?



- **Half of the Boards initiated direct contact with their shareholders to keep them informed and get their views while only 30% did the same with proxies.**

Did the board, through its chairman or SID undertake direct contact:



- **Communication with stakeholders (employees, banks, administration) was systematically and directly conducted by the management.** Reassuring employees was at the top of the agenda.

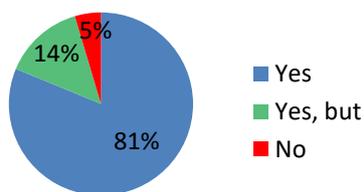
Learnings on communication

- Boards met more often but virtually, due to the lockdown.
- The development of new communication tools necessitated enhancement of their security to protect confidentiality.
- The external communication of the company was handled by the management with very little interference by the Board.
- The communication with stakeholders, especially with employees, banks and financial markets, was handled by the management.
- Only 50% of companies engaged in direct contact with shareholders.

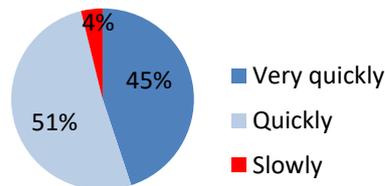
IV. Boards' response to the crisis

- **¾ of Board members were satisfied with the timeliness of receipt from the management of the right set of scenarios and action plans. Such scenarios and plans were constructively challenged but did not justify the appointment of a dedicated consulting firm.**

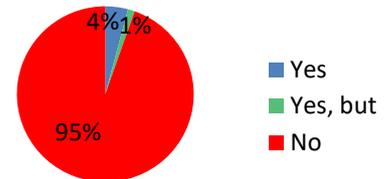
Did the management present to the board the right set of scenarios, planning and actions within the expected timeframe?



The timeframe was...



Did the board appoint a dedicated advisor(s)?

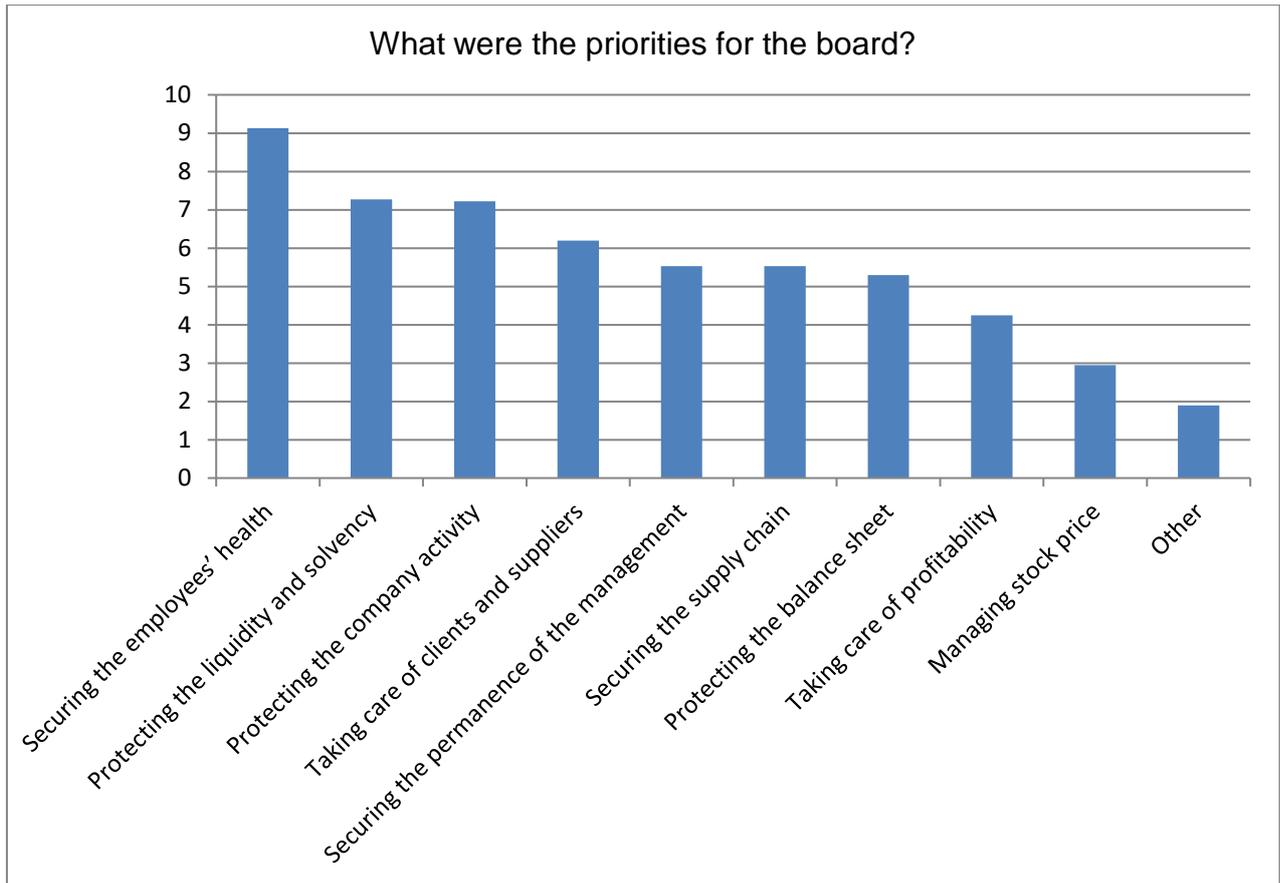


- **Based on their own experiences, Board members mainly challenged the management on:**
 1. Employees' health and safety;
 2. Continuity of services and consequences of the lockdown;
 3. Protection of cash position and balance sheet, and stress test on liquidity and solvability;
 4. Conditions to restart business operations at the end of the lockdown;
 5. Impact on long-term strategy.
- **This ability to constructively challenge was a key differentiator amongst Board members.** Some of them focused on worst-case scenarios in order to increase the awareness of the management.

"Generally, Board members pushed for more pessimistic scenarios"

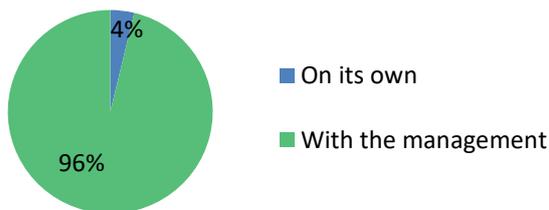
"Board requested a worst-case scenario, beyond the base case"

- **Priorities were set by the management and approved by the Board** and in most cases the priorities were, in descending order:
 1. Securing employee health;
 2. Protecting the liquidity, solvency and treasury;
 3. Protecting the volume of activity;
 4. Taking care of clients and suppliers;
 5. Securing the permanence of management.

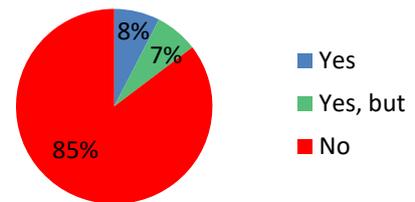


- **Priorities were jointly defined by the management and the board.**
- **Managing stock price and profitability was not at the top of priorities in this emergency situation** and none of the Board members felt that in doing so they created a potential conflict between the interests of the company and the interests of shareholders. **Protecting the company against potential raiders or activists was secondary to dealing with the crisis**, and this was evidenced by the decision taken by most companies to reduce or cancel their dividends.

How did the board set up the priorities?



Was the board faced with managing conflicts between the interests of the company and the interests of its shareholders?



Learnings on Board response to the crisis

- In dealing with this emergency situation, a clear hierarchy of priorities was set:
 1. Securing employee health
 2. Protecting liquidity, solvability and treasury
 3. Protecting production and creating the conditions to restart activity
 4. Keeping a long-term view to be able to seize any potential opportunity offered by the market
- The risk of takeover or hostile actions from predators was not seen as critical, which explains why many boards felt free to cut or postpone dividends.
- Action plans were drawn up and undertaken by management but only very few boards took the lead in that matter. The large majority assumed a challenging support role.
- Boards structured their work in 3 phases:
 - Resolve and resist at the peak of the crisis
 - Return to business at the end of the lockdown
 - Reimagine the future in light of the impact of Covid-19

Appendix

Profile of respondents

1) By geography

Nationality	%
French	28,2%
British	17,9%
Italian	12%
German	9,7%
American	7,5%
Spanish	5,5%
Swiss	4,5%
Dutch	3,9%
Canadian	2,3%
Belgian	1,9%
Brazilian	1,3%
Swedish	1,3%
Australian	1%
Chilean	1%
Irish	1%
Portuguese	1%

2) By gender



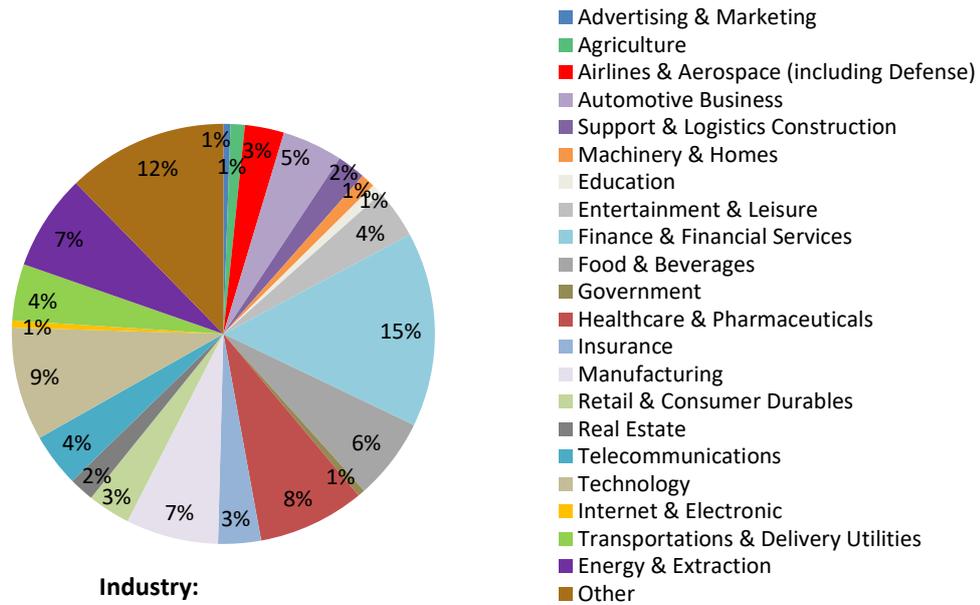
Your gender

3) By position

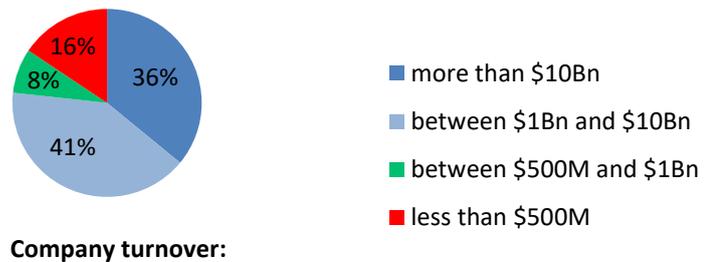


Current position in the board you are serving :

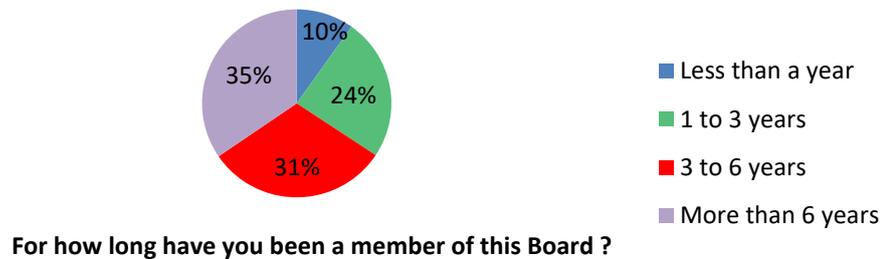
4) By industry



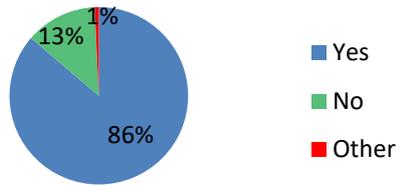
5) By size of company



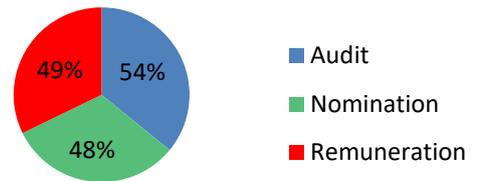
6) By terms



7) By committee memberships



Are you sitting on a board committee :



Which committee(s)?