

# Implications of COVID-19 for Directors and Boards

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The uncertainties concerning the future of the COVID-19 virus, the form and duration of Government responses, differing paths out of lockdowns and the nature of any 'new normal' that might emerge have multiple implications for directors. Some boards have coped better than others in the face of a new virus about which little was known initially and a sequence of unprecedented events and challenging situations. Some people and practices that were acceptable, tolerated and/or had contributed in the past have been found wanting.

While Governments have had to deal with the situation in a single country, boards of companies that operate internationally have faced pandemics at differing stages and varying official responses across the different jurisdictions in which there are corporate activities and/or dependencies. Directors have had to learn about the possible impacts of a new virus upon a company's operations and its customers, suppliers and business partners. Given uncertainties over claims and liabilities, and how different publics will live with the virus, going concern judgements can be a challenge.

Boards and public sector decision makers have needed and sought sources of informed information and advice. Issue monitoring and management systems have had a new issue to understand, track, assess, and respond to. Traditional monthly board meetings with their practices and periods of notice required have not always been suited to dealing with a crisis and fast moving situation that has required dexterity, quick reactions and rapid adaptation.

## Board and Executive Arrangements and Relationships

Directors need to consider the implications of covid-19 for the work of the board, the agility, flexibility and speed of its responses and the provision of strategic direction. What balance should they strike between directing, motivating, monitoring, questioning, inspiring and supporting? The allocation of time between challenge and support may need to

change during the various stages and iterations of a pandemic, but both will remain important. Directors must judge when to step in and become involved and when to leave matters to the executive team. Established views on what is strategic or operational may be tested when an unexpected event like COVID-19 causes unfamiliar issues to arise.

A pandemic can interfere with and exhaust board and management arrangements. It can disrupt staffing and succession plans. Directors need to be aware and sensitive but pragmatic. They should be supportive and address gaps, while avoiding unnecessary and distracting interference. Some prior discussion of how a requirement for intervention might be addressed and met may be helpful. The allocation of tasks between board and board committees may need to be revisited. Do board and management roles and responsibilities also need to be reviewed? Should they be allowed to evolve in the light of experience as a crisis unfolds?

Isolating and putting social distancing measures in place and their impacts in the workplace can raise the cost of people and reduce their flexibility and mobility, increasing pressure to replace people with capital via greater automation. A different mix of people and technology and alternative business models may be more agile, flexible and resilient. Some boards have attracted criticism for laying people off, but when taking the interests of all stakeholders into account, directors need to remember their duty to a company and ensure a continuing focus upon customers. Most enterprises do not exist to provide employment opportunities.

## Reviewing Financial, Operational and Strategic Resilience

One consequence of the pandemic for some companies as debts have accumulated has been a weaker balance sheet that might require stress testing. There may also be deferred payments that need to be made alongside steps to reduce levels of indebtedness. Going forward, there are likely to be

implications for research and development and other expenditures. Some companies may need to consider options such as converting debt into equity. Future cash flows and the viability of a business model may be uncertain while a 'new normal' evolves.

Supply chain resilience in the context of possible future scenarios could be an issue for many boards. Increasing reliance upon home and local suppliers may lower exposure to interruption at the cost of reduced efficiency. An eye may need to be kept on SMEs and smaller suppliers and those with weaker balance sheets prior to a lockdown. A board should ensure that executives are aware of a company's key customers, suppliers and business partners and they do what they can to support the ones that would be difficult to replace.

Smart boards look beyond corporate resilience at the resilience of the context in which they operate, which could include any locations in which corporate activities are a significant presence. The pandemic has had a bigger impact on some communities and municipalities than others. It also raises questions about the value of certain practices. In some market contexts, the activities that are allowed can suddenly change. Traditional corporate plans may be quickly overtaken by events. Should intelligent steering replace corporate planning?

### **COVID-19 and Board Decision Making**

In crisis situations the perspective of directors and the visions of boards can narrow. They may become preoccupied with the here and now and survival, but steps taken or imposed can have longer-term consequences. There may also be new possibilities to consider. Rather than recover to a previous position, it might be necessary to transition to different and more sustainable business and operating models. What are the implications of COVID-19 for how boards have taken and should take decisions? Should fewer or different people be involved? How has the use of video conferencing and other technologies for meetings and briefing affected directorial conduct, board dynamics and individual and collective contributions?

For many boards, new and/or additional governance mechanisms have been required, such as more frequent and possibly weekly meetings of directors by telephone or video conferencing, emergency or special committees of the board and executive task forces. This has required consideration of: from whom to seek advice and counsel; who should be consulted, involved in what decisions, and authorised to act as and when required; and how accepted suggestions should be formally agreed or ratified. Some of the new arrangements that have been introduced might become permanent, while others may be ad hoc and/or time limited.

To operate effectively in a rapidly developing situation, a board may require a greater level of pragmatism, ingenuity and improvisation. Directors might need to model themselves more

on creative, sensitive and interdependent jazz musicians rather than upon followers of a rule book or score devised in a pre-pandemic era. Such a transition can strengthen the case for a more diverse board membership. There may also need to be more interplay with audiences and stakeholders than has been the case in the past. Will directors - and particularly board chairs - be able to cope with increased demands upon their time?

### **Stakeholder Management and Relationships**

Discontinuity and sudden shocks can create a requirement to re-purpose and review corporate objectives and priorities. Boards should take steps to ensure that the core capabilities and relationships needed to transition to a more sustainable model of operation and quickly scale up are protected and, where possible, missing pieces of the jigsaw puzzle are put in place. A revised corporate purpose and direction, new priorities and a different business and/or operating model may require new skills and relationships. Anxious people may need reassurance while new collaborators are engaged.

A key question for boards is whether or not people will wish to continue a relationship in a 'new normal' world and/or when support measures cease and additional activities and practices are allowed. How should key stakeholders be consulted? Could they be allocated among directors and their responses shared with colleagues, priority concerns addressed and areas of opportunity followed up? Are additional communications with stakeholders needed as a result of COVID-19? Are new messages, formats, channels and practices required? The format of future Annual General Meetings may also need to be determined. How boards communicate with stakeholders and treat them in a crisis situation can have a lasting impact.

The existence of uncertainty need not prevent boards and management considering actions that could be taken in the event of different scenarios, whether further easing or re-imposition of restrictions, or breakthroughs in the treatment of COVID-19 and vaccines against it. Companies need to limit downside impacts. Directors should ensure that assessments of relationships with customers, suppliers and business partners and their resilience are realistic and inform appropriate actions to protect and further those needed for recovery and transition.

### **Risk and Sustainability**

Certain risks may need to be more closely monitored and more regularly reviewed. What steps can be taken to stop risk-averse boards frustrating new business models, different ways of working and required changes of direction? Applying pre-COVID-19 risk appetites and levels of risk aversion to the consideration of the new approaches, business models and ways of working needed to cope in a 'new normal' world and operate more sustainably could inhibit innovation and constrain progress.

Some directors may need to tolerate different forms of risk and higher levels of risk or themselves risk replacement by those more suited to a changed environment. Preoccupation with risk should not be allowed to result in opportunities being overlooked. How can directors prevent recovery from recession becoming a return to an unsustainable past? Should ESG understanding, experience and commitment be taken into account and/or become a criterion when new board appointments are made? Will dealing with environmental degradation, loss of bio-diversity and climate change be given less or greater priority?

The largest reduction in CO2 emissions this century during periods of lockdown should encourage changing ways of operating and working to bank such temporary improvements as permanent benefits. The speed of some responses to COVID-19 and the scale of their impact shows that effective action could be taken to address climate change if the individual and collective will existed. The speed with which pollution levels have risen with a resurgence of activity is further evidence of the negative impact of human activity upon the environment.

### **Coping with Uncertainty**

The predictability and timing of Government responses to the pandemic has been a particular source of uncertainty. COVID-19 has been a challenge for directors and for boards that have been used to being in charge and exerting control. Governments have confronted a new and a potentially uncontrollable virus. They have stepped in and mandated steps that in other circumstances directors might suggest or determine, according to the circumstances of an individual company. Directors accustomed to taking decisions and giving orders have been subject to the decisions of politicians and on the receiving end of instructions and guidelines.

The reserves of some companies have provided a cushion and given them a degree of resilience in the face of COVID-19. In many cases these have been heavily depleted and will not be available to the same extent for dealing with a second and any subsequent resurgence of the virus, or investing in what is required for recovery and transition. Directors should prepare for different scenarios. Some boards now need directors who can tolerate higher levels of uncertainty. In many jurisdictions, uncertainties include the steps Governments might take to deal with raised levels of public indebtedness. These could include higher taxation, as the costs of interest payments on debt are weighed against the Government's share of changing and hopefully recovering levels of sustainable output.

Access to objective and informed advice has never been more important. Some business models no longer work in a changed situation and many businesses are not viable under certain social distancing conditions. To influence those who decide public policy, a case for reducing social distance requirements

and/or temporary local lockdown restrictions to enable an activity to be restarted or increased to a viable level may need to be supported by scientific evidence of implications for the risk of becoming infected or reinfection. Boards need to take responsible decisions on what is safe and meets relevant guidelines and requirements.

### **Longer-term Implications**

While internal issues might be pressing, directors need to remain aware of external and contextual developments and stay alert to possible longer-term consequences of COVID-19. Some boards may need refreshing in the light of whatever 'new normal' emerges and what new models of business and/or operation and ways of working are adopted or sought. Certain non-executive directors may have found it difficult to cope with the increased demands of dealing with COVID-19 alongside other challenges, while serving on multiple boards. For some, the demands might have become too much in relation to rewards that were welcome as incremental income in quieter times. Those whose value relates primarily to a pre-pandemic world may need to be replaced by those whose qualities are more suited to a desired future.

Board chairs often find that some directors rise to the occasion in crises and difficult times, while others go missing, avoid involvement and duck their responsibilities. A CEO and senior management team may also have a view on which directors have been helpful and supportive and which board members have been irrelevant, unrealistic in their demands and/or have got in the way. It is important that a CEO feels able to confide in a board chair. If transition, transformation and/or movement in new directions are required, the opportunity cost of passengers on a board may become unacceptably high.

How might COVID-19 impact the traditional distinction between direction and management? As mentioned above, non-executive directors need to strike the right balance between oversight and support. They should avoid overwhelming management with requests for information in a crisis situation and getting overly involved with operational matters. Where existing board policies are not applicable to a new situation and precedents do not exist, directors may need to tread a fine line between helpful intervention and unwelcome interference that might become a distraction. At the same time, they cannot afford to ignore a reality that a management team is struggling to cope with the pandemic and its aftermath.

### **Competition and Collaboration**

For some directors, especially those who went to a business school, corporate strategy may be synonymous with competitive strategy. However, with many companies having faced and still facing shared challenges, is more collective action needed and should more attention be devoted to collaborative strategy?

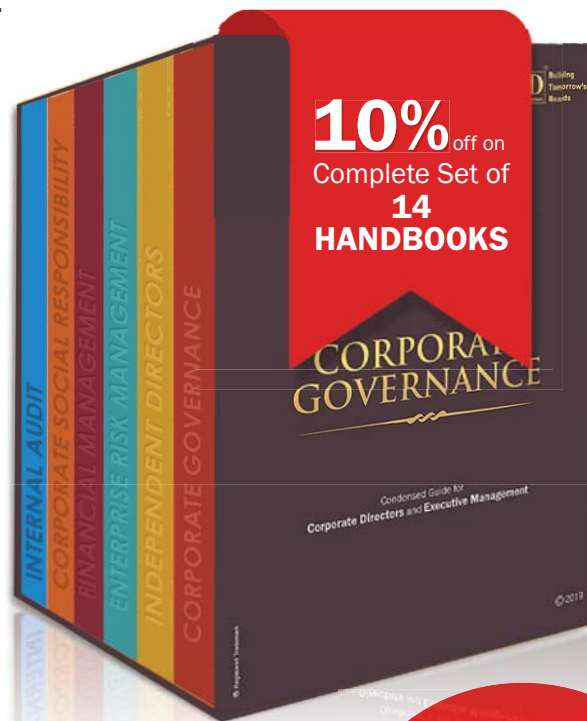
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Whether recovering from the COVID-19 pandemic, coping with a 'new normal', or addressing a common threat such as climate change, there may be more scope for cooperation. In relation to global warming, our survival might require it.

Many boards are looking for greater resilience in the face of disruption to global supply chains and their vulnerability as a consequence of 'just-in-time' approaches. They could commission consideration of shared use of joint warehouses and storage and distribution services. Closer collaboration with employees might trigger additional ideas from them of how best to operate more safely and sustainably, while observing social distancing requirements. Directors could call for suggestions of how to redesign or reconfigure workspaces, operating areas and flows of people to reduce the spread of COVID-19.

Directors should reflect on whether they envisage more collaborative action in the face of shared challenges. Shifting from competitive strategy to collaborative action and transitioning from previous governance, operating and business models to more sustainable priorities, approaches and practices might require a review of board inputs and membership. Might experience of the public sector be helpful when considering the implications of public-private collaboration or possible Government interventions? Given the nature of multiple challenges facing boards, is access to more and relevant scientific advice required?

### **Reviewing External and Internal Relationships**

For productive and more mutually beneficial collaboration, does the relationship between business and Government need to change? During the pandemic, areas that had previously been left to market forces have been tightly controlled. Governments have imposed lockdowns. Companies have been forced to comply with standard measures that have applied to a wide range of sectors and entities in very different situations. Going

forward, how might the business-Government relationship become more consultative, with two way communication and businesses able to influence, if not shape, measures applying to them?

Boards and CEOs should ideally discuss the role of the board and how executives and non-executives work together at the outset of a looming crisis like the COVID-19 pandemic. Working arrangements should be reviewed at intervals, and especially before a crisis moves from one stage to the next. There will be immediate issues to address and longer-term implications to consider. More frequent meetings of boards and the demands of dealing with a crisis can present particular problems for directors who sit on multiple boards at a time when a challenge and new situation may apply to many if not all of the companies involved. Director 'overboarding' may need to be more actively confronted.

Directors should ensure that lessons are learned about board and corporate responses to COVID-19 and that these are relevant for whatever 'new normal' situations and contexts emerge. Going forward, boards should consider: what they need and how they should operate; what they would like to do less of; and what they should do more of. Are there particular activities, arrangements and requirements that should stop and new ones that should be adopted and/or introduced? Directors should review their own aspirations, contributions and priorities as critically as they would reassess those of the entities for which they are responsible. They should face the future with their eyes and minds open. ■

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