



Stepping in: The board's role in the COVID-19 crisis

Introduction

COVID-19 represents a true crisis for nearly every board of directors today. Strained supply chains, liquidity concerns, financial strains, absent employees, a move to remote working: the list of operating challenges seems endless.

A good response to the crisis includes a lot of things that Deloitte has written about elsewhere—business continuity, resilient leadership, the importance of human capital, back-up plans and the like.

For boards of directors, a good response is likely to be rooted in a deep understanding of the role of the board—knowing when to step in and when not to, and how and when to engage in external activity—such as communicating with stakeholders, regulators, and others.

In a crisis like that of COVID-19 when the stakes are high and scrutiny is intense, the board has a unique role. Stepping in may be uncomfortable, but stepping aside is not an option.

The board acts as the ultimate stewardship body of the company, both guiding and supporting management in decisions around the fight for survival but also ensuring the company positions itself to emerge from the crisis stronger and more resilient. What is essential is board discipline, a cool head, detachment and good judgment under the guidance and leadership of the chair.

A version of this article was published in late 2019 and was well-received by many of our clients. In these uncertain times, we have adapted parts of the article to meet the extraordinary challenges that boards are facing today as the COVID-19 crisis continues to escalate at a fast pace around the world. We have added new thinking and insights about the board's role in today's crisis, in particular around how it sets the tone for the organization, how it supports and challenges management, how it can ask some of the big, 'what if' questions, and how it must be involved in succession planning for key leadership positions.

WHAT IS THE BOARD'S ROLE?

The board should play a supportive internal role, not a public-facing one; it must retain its independence, but must also be prepared to intervene if the management team is compromised, not available because, for example, they are ill from the virus, or if management specifically requests help from the board.

Active in the right way

Leadership in a crisis like that of COVID-19 is not the same as in business as usual: demands on management have become exponentially greater and it has become harder for leaders to execute their role. Usual ways of working must be adapted, process simplified, authority delegated. Directors should resist the urge to jump in and blur the lines between those of management and the board. At best, doing so, could take up executive time, the scarcest resource in a crisis; at worst, it could hinder management's ability to do an already difficult job. We find that the board adds most value when it provides critical oversight, long-term planning and strategic support, a much-needed outside-in view and provides oversight as management engages key stakeholders such as government and business partners.

We find that boards in a crisis often play a key role in reinforcing the purpose of the organization with management, reminding leaders of societal obligations, and making sure that, even in the depths of the crisis, the organization's responses serve the heart of the organization. Particularly in a crisis that like that of COVID-19 that so intimately threatens people's health and well-being—the board can play a role to ensure that the business is demonstrating to employees, customers, communities and the organization's broader ecosystem that the organization has their best interests at heart.

The role of the board in a crisis can be supportive of management in a few other ways, too.

- The board can help set the tone of the organization for the response, and to make sure management's actions and communications are effective.
- The board can balance support and challenge to the executive during a difficult time; executives will need both in strong measure.
- The board has perspective and more time to help think through dilemmas, to support management—and it can push management to make difficult decisions if there is hesitancy. The board can consider difficult 'what if?' questions on a range of issues that management may be reluctant or too busy in the day-to-day crisis to ask.
- The board can prompt new work around succession planning, broaching questions with management about contingency plans should key leaders be taken out of their normal working routines or should the CEO or his leadership team not be available (see The Board and Succession, below).
- The board can ensure that it has its own situational awareness of the bigger picture. This is the board's true strength in a crisis: the diversity of experience that many directors bring to the boardroom table and the ability to bring in the outside-in perspective can be a strength when confronting the unprecedented. And this broader

awareness helps the board maintain its independent view, adding value to the executive team and the whole organization.

Still, even in a crisis like that of COVID-19, where board members are likely meeting together with management much more frequently, and where management may seek input and insight from the board (and in particular from those board members who may be executives at other organizations dealing with the same issues), it is important to remember boards are not there to run the business, but to provide guidance, perspective and oversight.

The ability of the board to fulfil this role relies on its strength of relationship and exchange of information with the executive team. This is often about having a strong and respected process that sets out how situation updates are provided, who will they be given to and how often.

We are often asked whether and when the board should have a public role and act as spokesperson for the organization. This is a challenging question for many boards, because in some countries, the Chair often does play an important role in speaking with shareholders and other stakeholders. In organizations with this history, there will be a temptation to extend this role to leading communications with stakeholders, regulators, and others, particularly if the CEO and the executive team is wholly focused on managing the crisis. Our

advice remains that this should be avoided—unless country practice, industry sector or specific circumstances dictate otherwise. Unless confidence in the capability of the leadership team is in question, or unless the leadership team asks for the board’s involvement, the best default position is that the board is there is to support and guide management, ensure they are thinking about the widest range of stakeholders in their communications and responses, and to bring the full scope of the board’s external experiences to bear.

Is this a time when greater intervention is needed?

There are, however, a few, rare times when the board may need to play a greater role in a crisis like this: when management is unable to provide the necessary leadership. The biggest role a board can play, and usually its last resort in a crisis, is to take the reins from management and step into an executive role. For many, this remains a low probability event—If this is even a remote possibility, however, boards should plan as much as possible in advance and agree their roles and responsibilities, so that crucial time is not lost working this out if it’s needed. The Chair can play a role in planning, working with the board to set out who would assume which roles, what committees and/or working groups should be established, how decisions would be made, and what external support would be called upon.

The board and succession during COVID-19

One area where the role of the board is to be, appropriately, more involved, is that of succession. The board is ultimately responsible for CEO succession, and it must provide oversight of management’s succession planning for other key roles. For boards, COVID-19 is a challenge to existing emergency succession planning. This virus may make it more likely not that a key leader is lost, but that leaders at many levels of an organization fall sick or are absent, recovering for a few weeks at a time. For boards, time spent on succession planning during a crisis like COVID-19, which may build over time and in waves, is likely time well spent. Boards should discuss succession risks of particular positions openly, together with management, informed by their views, and again in executive session. And the board should do this with a risk lens:

- 1) **Vacancy Risk**—What is the risk that a particular position becomes vacant, for whatever reason.
- 2) **Availability Risk**—How available are internal candidates to take over a position should it become vacant?
- 3) **Readiness Risk**—The risk that the person planned to step into the vacant position does not have the right set of skills to take over.
- 4) **Disruption Risk**—The potential for disruption to the larger organization when an executive moves from his or her current position to the new position.
- 5) **Control Risk**—The risk that the absence of individuals renders controls frameworks ineffective and business processes fall behind.

We believe COVID-19 throws all of these risks into higher relief. For each of these risks, we urge boards to engage with management and with human resources teams in particular: Do we review our succession planning process? Do we review it regularly?

- a) How prepared would we be if our CEO were not available for a sustained period of time? The CFO?
- b) Have we asked our CEO how COVID-19 is affecting his or her view on talent and future plans?

The Working Board During COVID-19

The COVID-19 virus will, beyond many of the issues already discussed here, challenge boards in how they meet and operate. We have reached the point where most board members do not wish to travel or cannot travel to board meetings, or where the organization itself has restricted travel. Under these circumstances, how boards should meet is a new and urgent question.

Many boards already organize regular meetings by phone or videoconference, and the virus is occasioning many more boards to meet on a weekly basis by phone or videoconference, or more frequently, as required. Meeting remotely in this way will place more weight on the shoulders of the Chair, to make sure all directors participate and are heard. Good chairs will call directors between board meetings, to elicit concerns or points of view that prove more difficult to raise on a group call. Times like these may mean such chair-board member check-ins are more important than ever.

COVID-19 may also force a re-think of the board's committees. Some committees may seek to meet together with the risk committee, if they haven't before. More directors may wish to attend meetings of more board committees, even those where they are not members. Some boards may form an ad-hoc COVID-19 committee to work on issues most needed by management—others will define the entire board as the crisis or COVID-19 committee. Yet others may see board committee chairs support functional leads in a crisis: for example, the audit committee chair with the CFO, the compensation committee chair with the CHRO. We believe boards' working approaches are idiosyncratic and will likely differ according to the size of the board and individual need.

Shareholder Communications

Furthermore, boards and management must work together to decide how to best communicate their crisis response to their shareholders. While management will take the lead in this outreach and related communications, the board must oversee that the right level of engagement and disclosure is provided to its shareholders. In addition, boards and management should decide on how best to carry out their annual general meeting (AGM) due to COVID-19. With many states imposing restrictions on meeting capacity, many organizations will be turning to virtual shareholder meetings, where permitted—a practice that has been growing in acceptance over the years allowing for an alternative to an in-person meeting.

The special role of the Chair

The Chair of the board is in a unique position in a crisis: He or she has to understand the mood and dynamics of the other board members more than ever, and be quick to respond when needed. The Chair has to ensure that the board and its committees continue to meet, and at a cadence that corresponds to the gravity of the crisis.

The Chair also has a role as a sounding board to the CEO during a crisis. Being the CEO of an organization in crisis can be a lonely place. Having the confidence and counsel of the board can be vital, and the Chair of the board is likely to be a critical relationship to navigating the crisis successfully and is well-placed to be a 'critical friend' in these difficult hours, days or even months after a crisis strikes.

Take a deeper dive—ask the difficult questions

But the aftermath of a crisis gives the board license to ask difficult questions, beyond its usual remit, in the effort to reassess resilience and vulnerabilities. How an organization performs when tired, stressed and defensive gives a new perspective that boards can benefit from exploring. Why did things unfold as they did? What cultural traits across the organization exacerbated the situation? What is the long-term plan to achieve a more crisis ready culture?

When we are asked to provide a crisis post-mortem for clients, or to gather feedback on an exercise, we often hear about the organizational culture: 'how things are done here'. Culture should rightly mirror an organization's purpose

POST-CRISIS

The board has a special role in helping the organization to 'return' to a new normal by working with management on a post-mortem, spotting areas where change is possible, in order to gain greater resilience.

Review crisis plans, processes and competency

Lessons learned after the crisis are usually focused on the performance of the teams involved in the response—the crisis management team, the communications teams and other supporting country, business or functional teams. Did processes work? Did information flow well? Was communication with stakeholders adequate and timely? If not, why not, and what can be done to improve? This will usually lead to reviews of plans, training and testing of people.

and values. A Silicon Valley outlook in a public utility would not be ideal, and vice-versa, but ways of working in peacetime should not undermine the ability to work in a crisis. Then there are comments such as 'we have a good news culture' (we brush over problems) or, 'we like to be consultative' (we can't make a decision), or 'people are worried about raising problems' (we are scared of our leaders), 'to get on in this business you need to...' (incentives drive risky behavior). This is where the strategic view point, the authority, and the independence of the board can really come into its own.

Broaden the learning

Often, a crisis at one organization can bring change for an entire industry, through regulation, changed consumer expectations or behavior. This may be unwanted or desirable, possible or inevitable. The board can support the move to a new normal by working with the executive team to understand what a favorable outcome is, and how it might get there. Furthermore, boards can learn from other companies on how they responded to and addressed a crisis; regular reviews of case studies can make an abstract or theoretical discussion practical and relevant.

After COVID-19

No leader wants to face something like COVID-19. But when looking back after the crisis is over, a critical event like this can enable a transformation in the organization. The 'new normal' for the organization might look very different— in governance, strategy, ways of working. What strategies, decisions and directions are now on the table for discussion that perhaps were not before? The board should be ready to support change, and direct change, or even be part of the change. For some organizations, there will be a possibility to learn from the current crisis and to emerge from it as a stronger, more resilient organization.

FINAL THOUGHT

A crisis response to COVID-19 remains firmly in the domain of the executive, requiring executive direction and hands-on operational intervention to make, implement and communicate decisions under these toughest of circumstances. But an organization's crisis response to the virus is proving to be also about being externally focused: stakeholders, shareholders, regulators and others will all be in the mix. With this scrutiny, and with the organization's viability potentially on the line, the board cannot be a bystander. Stepping in might feel uncomfortable but stepping aside may not be possible either. Paying attention to the possible blurring of the lines, while talking openly about the risks and opportunities of board involvement during this unsettling time, will not only help the executive, it will also help the board be the most effective it can possibly be.

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CONTACT US

Dan Konigsburg

Senior Managing Director
Global Center for Corporate Governance
Deloitte Global
dkonigsburg@deloitte.com

Andrew Griffin

Partner
Reputation, Crisis and Resilience
Deloitte UK
ajgriffin@deloitte.co.uk

Michael Rossen

Managing Director
Global Center for Corporate Governance
Deloitte Global
mrossen@deloitte.com

Claire Snowdon

Associate Director
Reputation, Crisis and Resilience
Deloitte UK
csnowdon@deloitte.co.uk

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