

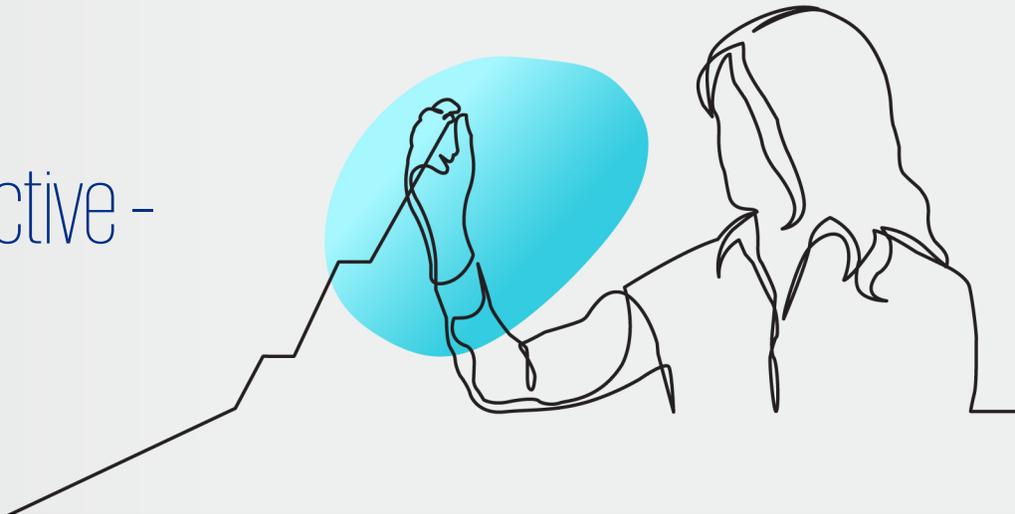


COVID-19

The board's perspective – tone at the top

KPMG Board Leadership Centre

March 2020



The speed and breadth of the unfolding COVID-19 crisis – dramatically impacting lives and healthcare systems, disrupting business operations and supply chains, slowing markets, and now posing risks to the global economy - is putting nearly every facet of business to the test. Responding to the humanitarian crisis is priority #1 – whether that be working to contain the virus, supporting victims and their families or helping developing a vaccine. There are also significant implications for board members who need to be decisive in protecting their people and organizations throughout this current phase of the crisis to the next one and the longer term.

As with any crisis, it is crucial to be transparent, accountable and clear about who is calling the shots. Boards need to step up and take ownership and responsibility. Accountability and credibility are everything. An effective response and recovery – particularly in the eyes of customers, the workforce and the public – will hinge on transparency and speaking with a single, clear voice whether the news is positive or negative.

Understanding the crisis

There are three key questions that every board should be asking:

- Have we determined the full scope of the crisis?
- Are the board and management all together and of the same mind as to what is being done and what is required?
- Do we have benchmarks and milestones in place as the crisis unfolds and our mitigation efforts progress?

Also, the way that boards exercise their challenge may need to be more robust than at present. Questions such as: “*Are we OK in terms of our supply chain?*” or “*Are our people safe?*” are unlikely to elicit responses that will provide the board with sufficient information about the risks and mitigating actions for effective decision making.

Routinely take a step back from crisis management to assess the situation through different lenses and anticipate what might

happen next, before making decisions. While some moments during the crisis will call for immediate action, with no time to assess or anticipate, the stop – reflect – decide cycle should be ongoing in the background.

It is crucial that boards seek expert insight and advice throughout the crisis, but ultimately boards are accountable for their own actions and must base their decisions on the specific circumstances, facts, and culture of their companies. Sometimes this may run contrary to the expert advice that they receive. For example, the board may have decided to close their workplaces before instructed to do so by the government.

Ultimately, boards have to make difficult decisions as there is no such thing as ‘safe’. For example, when will it be deemed ‘safe’ to get the workforce back to the office? Too soon and the risks to health may still be too high; too late and the delay in service and operations could irreversibly damage the business.

Making decisions with incomplete or inaccurate information in a fast changing context is always tough, however, it is where the best boards will make the biggest difference.

Some boards will inevitably make some mistakes. Self-awareness, recognizing reality and adaptability; as well as tolerance and empathy for others will be important. Boosting confidence when bad news comes in; and strengthening resolve when difficult decisions need to be taken and implemented will be vital.

The buck stops with the board

An effective board defines the company's purpose and then sets a strategy to deliver it – even in times of crisis – underpinned by the values and behaviours that shape its culture and the way it conducts its business. Boards hire management teams to run companies on a day-to-day basis on their behalf; but should not forget that they are ultimately responsible.

The Canada Business Corporations Act defines a number of basic legal duties for company directors. Section 122 specifically sets out that directors should act honestly and in good faith with a view to the best interests of the corporation; and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. And in doing so regard the interests of shareholders, employees, retirees and pensioners, creditors, consumers, and governments; the environment; and the long-term interest of the corporation*

How shareholders will be affected by board decisions will therefore be a key concern throughout the crisis – but so too will be the impact of the board's decisions on other stakeholders. This is not just theoretical governance – boards may well have to evidence their consideration at a later date, both in corporate reporting and if directors were ever required to legally justify specific decisions.

Hence, the starting point for boards in this crisis – just as in any other crisis – is to direct the company in pursuit of success as a whole in a way that works for all key stakeholders, and shareholders.

In most cases, the need to maintain the loyalty and motivation of employees, suppliers, customers and local communities will be a crucial consideration for boards in both the short and long term. Of course, this is not so simple in reality and tough choices may need to be made to protect the interests of shareholders despite the impact on other stakeholders, e.g. in the case of making layoffs.

Living the company's values

There are multiple domino effects of the COVID-19 pandemic – travel bans, school closures and most recently social 'lock-down' requirements. And this is all happening at a time when trust in governments institutions, businesses and boards, is very low. Be clear in your own mind – and to the public – about what the company stands for. What are its values? Where do its loyalties lie?

Acknowledge the personal and professional challenges that people are experiencing and take corresponding measures to support them.

Be clear as to how management should communicate this to employees and other stakeholders and ensure they have all the resources necessary to do it properly. Doing the right thing will increase a company's likelihood of success. Once we are through the crisis, customers, suppliers, shareholders and especially the workforce will remember how they were treated.

Be transparent

A crisis can result in traditional communication challenges being rethought. With much of the country's workforce now working remotely will what worked yesterday, work today?

Gather the relevant facts and share as much as you can. 'Going dark' or having a bunker mentality will leave questions lingering, invite rumours and allow 'fake news' to build up.

Use all available means, including social media, to help understand market and societal expectations. Events are changing at pace so communicate as regularly as possible. Employees, customers and other stakeholders will value open and honest communications. Even admitting a mistake can be a powerful catalyst for maintaining workforce and customer loyalty.

Communications shouldn't stop once the crisis has passed. Offering an optimistic yet realistic outlook can have a powerful effect on employees and other stakeholders, inspiring them to support the company's recovery.

Be clear who is 'calling the shots'

In normal circumstances the CEO is in charge and the board's role is oversight. The CEO is the face of accountability and external communications should flow through them. Generally, individual directors should not speak for the company unless a board response is deemed to be necessary.

The quality of relationship between the board and executive management is critical. This is not time for people to be trying to do each other's jobs. Board and executive management responsibilities should be clear and the time spent together should be organized to achieve maximum impact.

If the CEO is unavailable, say through sickness, then the board will need to consider who takes the lead. Maybe the chair steps in to fill the void, or maybe a '*battlefield appointment*' can be made to ensure the right expertise, time and resources are dedicated to navigating the company through the crisis.

Be prepared to roll up your sleeves

Without straying into management, board members may need to take a more active role within the business than in normal circumstances. It is no good holding management to account on a retrospective basis after the organization has suffered a catastrophic failure.

Equally, board members can contribute in different ways. Being seen to take on a very different and perhaps modest role in the midst of a crisis can have a powerful impact on team morale and provide board members with unique insights into the business and the people within it that will be invaluable when the company emerges from the current crisis.

Also, it is crucial for senior people to offer frontline teams the tangible support that they need, not only during the crisis, but afterwards from a staff wellbeing perspective.

The ability of the Chair to make the most out of the board they have right now will make a huge difference. Chairs need to lead by example and inspire everyone to step up. If you haven't got the right Chair for a time like this, then someone else will need to step up and fill the vacuum without the title. New stars will emerge just as they did in previous crises and ideally – forged through crisis – boards will emerge stronger and more tightly bonded than before.

Watch for new talent

Crisis situations like the current pandemic provide boards with a different perspective on people's skill sets. While some individuals have thrived in a 'business as usual' leadership role, they may prove to be less effective as the current crisis deepens.

*Source: <https://laws-lois.justice.gc.ca/eng/acts/C-44/page-21.html#docCont>

Conversely, others who may not have stood out in the past may really come into their own and display amazing latent talent in today's unique environment.

Also, be agile and support executive management in drafting in expertise from around the business to support the crisis management activity – though keep a watchful eye on any holes left behind, such as weaker control functions.

Recovery and long-term opportunities

Many boards will emerge from the crisis with changed behaviours and new ways of working – whether that be greater emphasis on 'complete-finisher' behaviour, more robust challenges around risk or ensuring the board (and the company) is better prepared for the next crisis.

Even if things don't turn out to be as bad as originally feared, an effective vaccine is found and economies recover, albeit slowly, it is likely that the workplace and the markets in which we operate (if not society as a whole) will be different in the future.

Perhaps we will all view and approach risk in a profoundly changed way.

As the old saying goes, the best boards "*won't want to waste the crisis*". They will change more than just what is necessary to survive. Complex and more interwoven supply chains have proven to have downsides as well as upsides; and communication technology has already proved to be an incredible force for good enabling a measure of business continuity and a sense of community to be maintained.

Ultimately, the COVID-19 pandemic has placed extraordinary demands on the boards of companies in every sector around the world – and its consequences could last for longer than anyone anticipates. In such times, decisive and motivational leadership – within a framework of clear purpose and values – will be a differentiator. Boards that have these characteristics and can exercise good judgement in making the right decisions at the right time will have a greater chance of emerging from the crisis stronger than before.

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Contact us

Jim Newton
Partner, Audit & Co-Leader, BLC
jnewton@kpmg.ca

Janet Rieksts Alderman
Partner, Internal Audit Risk and
Compliance & Co-Leader, BLC
jriekstsalderman@kpmg.ca