



COVID-19: The board's perspective

KPMG Board Leadership Centre

The speed and breadth of the unfolding COVID-19 crisis is putting nearly every facet of business to the test. Responding to the humanitarian crisis is priority #1, however there are also significant implications for board members who need to be decisive in protecting their people and organisations 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 accountable for decision making in a fast-changing environment. The demands of Boards will increase as they take ownership and responsibility for the challenging period we face. Accountability and credibility with stakeholders is key. 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 have on their minds:

- 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?

Consider how the board exercises its challenge as it may need to be more robust than normal. Broad brush questions such as: *"Are we okay in terms of our supply chain?"* or *"Are our people safe?"* are unlikely to elicit responses that will provide the board with enough information about the risks and mitigating actions for effective decision making.

Also, try to make time to take a step back from crisis management mode to assess the situation through different lenses and anticipate what might happen next, before making any 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 ideally 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 e.g. the board may have decided to close their workplaces before instructed to do so by the Government. Ultimately boards have to take difficult decisions. 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 imperfect information in a fast changing context is always tough but it is where the best boards will make the biggest difference. Some boards will inevitably make some mistakes, so self-awareness, recognising 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. While management teams run companies on a day-to-day basis, boards are ultimately responsible even in times of crisis.

The Companies Act 2006 defines a number of basic legal duties for company directors. Section 172 specifically sets out that directors should act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

But s172 also requires that directors have regard to both the likely consequences of any decision in the long term and the interests of a wider group of stakeholders including the company's employees, suppliers, customers and others.

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 their corporate reporting and if directors were ever required to legally justify the specific decisions they made.

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

Unfortunately, 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 redundancies. But 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.

Living the company's values

The COVID-19 pandemic has claimed thousands of lives and sadly many more are expected. There are also multiple knock-on effects – travel bans, school closures and most recently 'lock-down' requirements.

This is where the company's values and purpose come in to their own. As a board, be clear in your own minds about what the company stands for and do your best to articulate its values and demonstrate genuine empathy with employees and wider society by acknowledging the personal and professional challenges that the people are experiencing, and by taking appropriate measures to support them.

As a board be clear as to the 'how' and 'what' management should communicate to employees and other stakeholders; and ensure they have all the resources necessary to do it properly. Media and reputation is important, but doing the 'right thing' is paramount and will ultimately increase the likelihood of success. Once the crisis has passed, 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 'false news' to build up.

Use all available means, including social media, to help understand market and societal expectations. Events are changing at pace so be cognizant of the need to 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.

Finally, 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. Individual directors should generally not speak for the company unless a board response is determined to be necessary.

In times of crisis, the quality of the relationship between the board and executive management is critical. This is not time for confusion as to who does what. Board and executive management responsibilities should be clear and the time spent together should be organised 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 your sleeves up

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 organisation has suffered a catastrophic failure.

Equally, board members can contribute in other 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, as senior people, consider offering frontline teams the tangible support 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 the Chair isn't the right person 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 have done in previous crises and ideally – forged through crisis – boards will emerge stronger and more tightly bonded than before.

Identify people's strengths

Crisis situations like the current pandemic provide boards with a different perspective on peoples' skill sets. Whilst some individuals have thrived in a 'business as usual' leadership role, they may prove to be less effective as the current crisis deepens. Conversely, others who may not have stood out in the past may really come into their own with the skills and resilience for today's unique environment.

Encourage the executive team to think about drafting in expertise from around the business to support the crisis management activity – though keep a watchful eye on any holes left behind e.g. 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 'completer-finisher' behaviour, more robust challenge around risk or ensuring the board (and the company) is better prepared for the next crisis.

Even if the economic impact turns out to be not as bad as feared 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.

The best boards 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.

The KPMG Board Leadership Centre

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