A Look At Corporate Governance In The Context Of COVID-19

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Short Details

How could have corporate governance minimized the impact of COVID-19 on businesses.

Details

The pandemic caused by the spread of the novel coronavirus (COVID-19) has been described by some as a black swan event. However, in reality it does not strictly fit that definition, with prior warnings from multiple sources, including Bill Gates in a now famous Ted Talk, that the world was vulnerable to a fast spreading disease.

Therefore, is it fair to say that organisations should have been better prepared for this game-changing and highly disruptive event? In truth, it would be difficult to expect young and small businesses to have had adequate plans in place. Even for larger, more mature businesses to have a specific plan in place for pandemics is probably an unfair expectation. However, it is not unreasonable to expect mature businesses of all sizes to have clear crises response plans in place with protocols that would allow them to make situation specific adjustments and react quickly to any force majeure.

Whilst there are plenty of examples of companies that did not have adequate plans in place and have paid the price for this, MEIoD has seen examples of organisations that prepared and acted appropriately. For example, one of our clients, at the outset of the spread of COVID-19, called for an emergency board meeting and put in place a corporate action plan that can be triggered should the virus spread to their country of operation. The corporate action plan addressed: health and safety of the employees and stakeholders, a communication plan on what the company is doing in that respect, how to manage disruptions in the supply chain and finally how, on a national level, they can support the nation through this time i.e. what will they do for their communities.

Examples of Areas Addressed by a Good Crisis Response Plan

A good crisis response plan should look at external factors, but also where the business itself is most vulnerable and how to mitigate that. For example, if the company is very reliant on one supplier or suppliers that are all grouped together in a particular country, then there should be other suppliers identified in advance and relationships created so that in the event of a localised disaster, the lead time to switch production to the new supplier can happen quickly. Or, at the first instance of crises, stockpile products to manage any potential logistical disruption.

Likewise, if the company is very reliant on offline revenues (for example retail outlets), then having a quick way in which the business can pivot – be it online or through centralized delivery stations - to generate additional revenue streams is extremely important.

People management and the health and safety of employees is another key issue. Organisations with distributed teams have found it easier to adapt to working from home. Knowing who key workers are that

need to be in the workplace and how to ensure their health and safety while at work is critical at times like these. Also, having the technical tools and processes in place for remote working at scale is something that can avoid a drop in productivity in case of situations like the current one or other issues that are specific to the physical workplace, such as the company office having to temporarily close due to emergency maintenance works.

Apart from setting out ways to react to crises, having a robust risk management system that can flag and monitor potential disruptive events is critical. In the context of the novel coronavirus, that would mean identifying the risk once the virus started spreading quickly in Wuhan and putting in place initial steps of a response, allowing for a quicker reaction when it developed into a wider global issue.

Whose Responsibility is it to Create Crisis Response Plans?

> Given their large impact on any business, crisis response plans should be signed off and owned by the Board. However, the C-Level executives play a critical role in ensuring that such a plan is feasible and ready for implementation when needed and that it is stress-tested against a comprehensive set of assumptions.

Conventionally, risk management as a whole is dedicated to the audit or risk committee of the board and it is this committee that carries primary responsibility for testing crisis response plans, as well as making sure that they are continuously updated. The committee can then present their findings to the full board for further scrutiny.

Turning Risk into Opportunity

Many have focused on the business risks associated to the COVID-19 but little has been said about the opportunities. One of the best risk management tactics is to convert the risk into an opportunity, just not at the expense of health, community and quality.

In particular, digital transformation does not need to be temporary. Businesses may discover that online sales work better as a long-term model for them and COVID-19 acted as a catalyst for that change. Furthermore, digital transformation does not just apply to customer facing functions. In a relatively short space of time, organisations have been able to hold internal meetings through videoconferencing tools such as Zoom with minimal, if any, reduction in efficacy. This opens up the potential for recruiting and managing distributed teams more efficiently going forward, allowing companies to access wider labour markets.

Aside from an accelerated move towards online vs offline, the pandemic also offers an opportunity for companies to experiment with new product ranges. For example, most of the major food delivery platforms, such as Deliveroo, have now added grocery delivery to their offerings. On the surface of it, this is a reaction to the current situation and the fact that people prefer to avoid queuing up at supermarkets, however there will potentially be a longer term effect on customer behavior as people become even more accustomed to ordering groceries online. Therefore, such product innovations may well be here to stay.

In general, companies should be considering how the habits of their customers are changing during COVID-19 and how "sticky" those changes might be. This will help them understand how they can tailor their offerings, communication and processes to emerge stronger from the pandemic.

A Look at Government Responses

An important point to make is that governments that were exposed as not having clear and specific processes in place for such a pandemic should certainly be judged less generously than corporates in the same position. Whilst more general crisis response plans that can be adapted might be sufficient for corporates, they rely on the advice of governments that have large Health Departments tasked with preparing for such eventualities. Therefore, some of the policy flip flops, initial lack of clear guidance and slow response in countries such as the UK and Spain can certainly be regarded as failures and poor government.

It is interesting to note that countries which had exposure to SARS and MERS, such as China, Singapore, Taiwan and Saudi Arabia have been amongst the quickest to put in place contact tracing and testing regimes as part of a clear and thought through plan. It is to be expected that many organisations across both the private and public sectors will now have updated crisis management plans and policies triggered by Covid-19.

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