

Coronavirus, oil shock and board actions

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This time of year is a key one for Boards of Directors, as they assess prior year's performance, consider plans for this year and prepare for annual shareholder meetings. That is particularly true this year in light of COVID-19 and, most recently, the disruptions that may be coming from the Oil Shock this past weekend. Managements are also facing challenges, as they re-assess budgets, capital and other spending plans and forecasts. NACD data show that only a small minority of boards had participated in crisis-simulation exercises with management or had recently discussed the Board's crisis roles and responsibilities with management. Drawing from a variety of resources, we've outlined below some key question that may help Boards and managements assess next steps.

Assess company exposure and potential financial, operational and strategic impacts.

Pressure test assumptions about the potential financial, strategic and operational implications.

Questions:

- Do we have sufficient visibility into our extended, global supply chain – including critical suppliers of suppliers – to identify and understand where our supply chain is vulnerable to disruption? What alternative sourcing strategies are we considering?
- Have we identified and do we understand sources of disruption that are most likely to impact our revenue streams? What are the second- and third-order effects? What mitigation and alternative sales strategies are we considering?
- Have we identified and do we understand sources of disruptions that are most likely to impact our production/service capabilities? What are the second- and third-order effects? What mitigation strategies are we considering?
- Have we identified and do we understand sources of disruptions that are most likely to impact our functional and support teams – IT, accounting, tax, law, compliance, internal audits, procurement, HR, marketing, customer service, R&D, AR/AP, etc.? What are the second- and third-order effects? What mitigation strategies are we considering?
- What actions are we taking to protect the health of our employees and others who visit our locations (customers and others)?
- What actions are we taking to maintain our workforce (1) through this crisis?
- Have we identified any other sources of disruption that are most likely to impact our business? What are the second- and third-order effects?
- How are we dealing with fast-changing information about this crisis, and how can we ensure that we use the right sources of information to keep effectively adapting our understanding of and response to this crisis?
- Do we have the right crisis team in place in terms of skill sets and functional knowledge areas, and have they been given the right level of decision-making authority?
- To what extent do actions taken to date follow/deviate from our business continuity and crisis response plans and protocols?
- Have we analyzed applicability of MAE, force majeure and other clauses on material credit, supply and other contracts?
- Have we analyzed impact on creditworthiness of customers' impact on receivables and need for changes to payment terms and conditions?
- Have we analyzed possible data security issues that might arise from a material migration to a remote work environment?

- Is the enterprise at risk – from a liquidity, covenant compliance, share price (takeover) or other perspective?
- What support should we offer external stakeholders like suppliers, communities and local governments to support and contribute to the broader response?
- What are key indicators that will offer continuous understanding about operational and other impacts and effectiveness of our efforts to mitigate impacts?

Define crisis-response roles and responsibilities for the board and management.

Hold candid conversations with senior management to establish clear expectations about respective roles and responsibilities.

Questions:

- Is there a common understanding about respective roles and responsibilities?
- Should a committee/working group of Board members be formed which can work with management between Board meetings and report to other directors between Board meetings?
- Should there be more frequent Board/committee meetings?
- What information should be shared on a regular basis with the Board?
- Should the identification and treatment of disruptive risks become a standing agenda item?
- Do we have effective, open, and clear communication about crisis preparedness and response?

Evaluate internal communications strategy.

Provide timely and accurate information to employees without encouraging panic – to prevent fear from paralyzing the workforce and reducing productivity. Note that even communication that acknowledges a lack of information may be valuable to prevent damaging speculation and rumors.

Questions:

- Are all relevant audiences being considered when communicating internally about the crisis?
- Are we communicating clearly and promptly and have we set up a communications hub where employees can find all relevant information?
- Do we have a single source of communications, to prevent inconsistent messaging?
- Have we developed the right protocols for internal communications and decision making at all levels of the organization?

Evaluate external communications strategy.

Provide timely and accurate information to external stakeholders without encouraging panic or providing materially misleading or incomplete information.

Questions:

- How are we coordinating our internal and external communications, and our external communications to different groups of stakeholders (investors, lenders, customers, suppliers, analysts, ratings agencies, regulators), to avoid inconsistencies?
- Have we identified all transactions and events which may trigger a need for disclosure?
- What is our process for assessing disclosure and communications (both the Disclosure Committee and others who handle internal or external communications)?
- What information would trigger adjustments to our guidance?
- What are potential claims that could be asserted against us or that we might want to assert (for example, breach of a supply or sales contract due to quarantines or other business interruptions)?
- Are our financial reporting and auditing processes sufficiently robust to handle rapidly changing conditions (for example, the need for possible write-offs, write-downs or impairments)?

Possible lessons from the past.

The following lessons from prior shocks may be helpful for responding, communicating and learning.

Update intelligence on a daily basis.

Events are unfolding with astounding speed, and the picture changes on a daily basis. Teams that initially decided to communicate updates every 72 hours have moved to a daily cycle, not only for updating data but also for reframing overall perspective.

Consider news cycles.

It's sometimes difficult to distinguish between hard facts, soft facts, isolated facts and speculation. Consider sources of diligence to validate

information and think critically about the source of the information before acting on it.

Consider information sources.

People have direct access to many sources of information and one might conclude that there is so much information available nothing further is required. However, creating and widely sharing a regularly updated summary of information can be invaluable to put all relevant people on the same playing field so that time is not wasted getting there.

Consider experts carefully.

Experts in public health, logistics and other disciplines are valuable in interpreting complex and shifting information, but expert opinions can differ. Consult multiple sources and use an iterative, empirical approach to understanding.

Consider reframing your understanding of the big picture often.

A plan can be both a critical base for action and a source of inertia. Plans should be re-assessed frequently, may need to be adopted before management is completely sure and must be changed as circumstances change without fear of looking indecisive or misinformed.

Rapid response team.

Assemble a small trusted team of senior management, finance, legal and other key functions and give them enough leeway to make rapid tactical decisions.

Response considerations.

- **Communications:** Include contextual information and the reasoning behind decisions so that employees can deepen their own understanding and also take initiative in unanticipated situations.
- **Employee travel, remote work and needs:** Make sure that policies are clear. Restrictions on travel and congregation will trigger employee needs for access to education, health care, daily provisions and the like. Develop solutions and create an information hub. Many needs will be locally specific, requiring a multi-tiered approach to decision making.
- **Business tracking and forecasting:** Put in place rapid-reporting cycles so that you can understand how your business is being affected, where mitigation is required, and how quickly operations are recovering. Sooner or later markets will judge which companies managed the challenge most effectively.
- **Being part of the broader solution:** Focus on the intersection between acute social needs and your specific capabilities – in other words, live your purpose.

Develop resilience.

- Key principles: Redundancy; Diversity; Modularity; Improvability/Adaptability; Prudence; Community.

Prepare now for the next crisis and the new world.

- Intellectual preparation is not enough.
- Record and learn from the current crisis.
- Prepare for a changed world. The Covid-19 crisis will change our businesses and society in important ways – online shopping, online education, public health, supply chains and so on.

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FOOTNOTES


1. For example, OSHA has provisions on protecting employees from recognized hazards and the National Response Framework has guidelines for worker safety during national emergencies.


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