The ongoing global fight against the COVID-19 Coronavirus has transformed normal life and operations for citizens and businesses alike throughout the world. Large scale moves to remote working, severely disrupted supply chains, increased health risks and government mandated shutdowns have all caused many companies to reduce activity, rethink strategies and in some cases cease operating entirely. Many of the fundamental assumptions that feed into conventional Corporate Governance theory and practice are no longer applicable for this new business environment.

Cefeidas Group has identified six areas of consideration within corporate governance which will necessitate special attention by Boards of Directors and other corporate leaders as they respond to the current challenges, and move forward into planning for the future. These are:

1. Refocused ESG
2. Renewed Importance for CEO Succession Planning
3. Supply Chain Disruption
4. Future Working for Boards of Directors
5. Strategy and Risk Management
6. Crisis Leadership and Communication

While much of the future business context can be presently characterized by uncertainty, it is known that strong Corporate Governance practices can help mitigate corporate risk and put companies in stronger positions to tackle unforeseen challenges. The scale of the impacts presented by COVID-19 is immense, and Corporate Governance best practices will adjust to new demands and contexts.
1. A Refocused ESG

The enormous effect of COVID-19 on employment levels and practices has thrust a new focus on Environmental, Social and Corporate Governance (ESG) factors for both investors, governments, companies and the greater public. Companies are being judged on their actions in the social aspect of ESG, in particular corporate human resource management practices, as companies manage idle workforces, provide support to their employees, and oversee large shifts to remote working.

New challenges and implications:

Treatment of workers is largest ESG concern
Human resource management has become the top ESG issue for both investors and the wider public, especially in regard to loss of employment. Employers’ support of staff - such as payments, healthcare and benefits - are drawn into the limelight, as well as their liability for worker health.

Executive remuneration is under scrutiny
With some companies faced with reducing wages, furloughing or firing staff, investors and the wider public are examining whether such companies have also reduced executive pay levels, and will look unkindly on those that did not do enough to prevent job losses.

Environmental considerations are still relevant
Large scale teleworking, reduction in corporate travel, and reduced office and industrial energy consumption all directly achieve many environmental goals which had been championed by many companies prior to COVID-19, namely emission reduction and energy efficiency. Going back to “business-as-usual” will not be so easy.

Corporate social purposes are under test
Companies that already have a stated social purpose will need to demonstrate actions and not only rhetoric as this crisis calls for business to step up and support efforts to contain and manage the crisis.

Key questions for Boards of Directors to think about and address going forward:

- How can a company review its social purpose and ensure that it aligns with its corporate purpose, and be credibly acted upon given the current context?
- How does a company currently identify and engage with its stakeholders? Does this identification include new relevant actors such as anti-lockdown social groups or local government?
- Are ESG risk factors integrated into Board of Director meeting agendas, and to what extent can this be augmented?
- How are executive remuneration policies communicated to stakeholders vis-a-vis other human resource management strategies?

How Cefeidas Group can assist your organization:

- Work to identify a full range of company stakeholders, and create detailed plans for engaging with them.
- Create sustainability reports that assist corporate communication of ESG topics to stakeholders.
- Assist Board of Directors in how to integrate ESG topics into Board discussions.
- Design and implement an ESG risk assessment and management system.
2. Renewed Importance for CEO Succession Planning

With company CEOs and other senior management both managing the COVID-19 crisis and taking care of their own health, succession planning has become even more important for companies in ensuring they have the correct leadership in place. Temporary succession plans that can cover illness, and rethinking long term succession to identify internal candidates are new priorities for companies.

New challenges and implications:
Succession planning takes center stage
Well-developed and carefully thought-out succession plans provide fast responses and help maintain a company’s strategies, operating performance and cultural engagement during leadership transitions. Planning ahead for both temporary and permanent emergency succession procedures is now an even more pressing issue as companies face executive absences related to the COVID-19 pandemic. A crisis situation also gives a company the opportunity to change quickly as a pathway out of the crisis is identified, and a company’s leadership planning should reflect any new direction.

Shortage of candidates can hinder plans
The cross-sectoral nature of the impacts of the COVID-19 crisis are affecting normal long-term succession plans, due to a reduction in candidates available to move from one company to another, reduced willingness and possibilities for relocation, and the potential for multiple companies to be seeking c-level replacements at the same time. External candidates therefore may be harder to find during this time, raising the importance of internal succession planning.

CEO health under the spotlight
With CEOs and other upper management members across the world being infected by COVID-19, in addition to temporary succession plan measures that can bridge an absence of leadership, it is important for companies to decide how to communicate such situations to shareholders and internal stakeholders. Protecting CEOs or other key management by enforcing strict isolation can be a way of ensuring entire leadership teams are not out of action at the same time.

Key questions for Boards of Directors to think about and address going forward:
- What should temporary and permanent emergency succession plans contain in light of COVID-19?
- Are current temporary and permanent succession plans sufficiently flexible?
- What policies should companies implement to ensure CEOs stay healthy?
- Does the Board have the correct structure to overview c-level succession, such as via a nominations committee?

How Cefeidas Group can assist your organization:
- Address short-term and long-term succession plans.
- Analyze a Board’s composition and structures in regards to its supervisory function of upper management.
3. Supply Chain Disruption

The COVID-19 crisis has already generated an unparalleled commercial impact for organizations, provoking an unprecedented interruption of supply chains across all industries. The current situation defined by interdependence and fragmentation that underlines supply chain models has translated into a strategically complex vulnerability, one not accounted for by all risk analysis scenarios. There is therefore the need to reconsider many companies’ globalized supply chain models, especially as politicians in many countries do the same.

New challenges and implications:

New commercial strategies
Companies must update their commercial strategies, with supply chains becoming more dynamic and needing to include new, more robust indicators and alarms to maintain their reliability such as, for example, performance measurements like supplier response capacity, resilience and reconfiguration possibilities, and storage capabilities.

Regionalization of suppliers
With the closure of international borders, reduction in global logistics, and shut-down of manufacturing in different countries worldwide, the re-localization of alternative suppliers within a company’s region may give greater foreseeability for the supply of essential goods or services.

Re-valuing human capital
Sub-par labor conditions and vulnerabilities to which certain workers are exposed to can drastically affect the continuation of operations of a supply chain, with social distancing measures being a challenge to enforce correctly in many industrial settings.

In addition to affecting worker safety, poor COVID-19 practices throughout a company’s supply chain also represent a reputational and regulatory risk for companies.

Business continuity plan
This situation serves as an opportunity to create, or revise and update company BCPs (Business Continuity Plans), with the objective of being better prepared when faced with a large-scale supply chain disruption. Innovation and R&D throughout a company’s value chain can reduce reliance on suppliers and distributors, while opening new business opportunities.

Key questions for Boards of Directors to think about and address going forward:

• What are the most significant risks which could affect a company’s supply chain?
• How critical to the company are each supplier, and are alternates in place?
• Are supplier labor practices known and understood by the company, and how are assurances of standards enforced? What is the reputational impact of supplier practices?
• How can the Board increase its dedication and oversight to this topic, including over related party transactions and conflicts of interest?

How Cefeidas Group can assist your organization:

• Create a Supply Chain Management Plan which includes the identification and management of associated risks throughout all parts of a company’s supply chain.
• Provide regulatory and political risk reports with insights on developments that affect supply chains.
The declaration of COVID-19 as a global pandemic, and subsequent decision of numerous countries to close their borders and establish obligatory social distancing rules, has been the catalyst to push virtually-held Board meetings from being a possibility championed by modernists to a necessity for most companies. It is fundamental that companies rapidly adapt their Board practices to ensure that their directors can work effectively, especially in such extraordinary times, and while it may be the case that some Boards and committees may be used to holding virtual meetings, for other companies doing so will be a new experience.

**New challenges and implications:**

**Technological requirements**
The evolution of technology has been key for the success of being able to hold virtual meetings, with a large selection of digital platforms available which offer a variety of convenience and cost savings. However, there are challenges, such as ensuring high-speed internet for all participants, and guaranteeing meeting security. Companies who had already innovated in this area have been better set up to make this transition.

**Meeting practices evolve**
Without needing to travel for meetings, some Boards are evaluating holding shorter meetings more regularly, and in some cases, increasing updates from management, although with this Board roles must be clearly defined. It is more necessary than ever to send out sufficient information for meeting participants to be able to prepare, and clear instructions on how to join each meeting.

Additionally, the role of the Board Chair must ensure they are familiarized with the meeting technology, while the corporate secretary should have a reliable way of taking notes and recording decisions.

**Security risk**
Faced with this new change to conducting meetings and the necessity for Boards to have an appropriate level of assurances to hold meetings securely and properly, many companies have opted to address these security risks via their risk committees or through creating a new IT or digitalization committee.

**Key questions for Boards of Directors to think about and address going forward:**

- Does the company have the appropriate technology to hold virtual meetings and are there established procedures for ensuring information security?
- How can virtual Board meetings be held that follow local regulations and according to company statutes? How is the Corporate Secretary able to record resolutions correctly?
- What is the best way to treat digital and cyber security risks which stem from moving Board meetings and other sensitive information online?
- What considerations should the Board additionally think of for holding virtual shareholder meetings?

**How Cefeidas Group can assist your organization:**

- Explore creative and innovative options to identify the best solutions to holding effective virtual Board meetings.
- Evaluate a Board’s composition faced with the need to adapt to a new reality of conducting business, and a Board’s alignment to technological advances.
5. Strategy and Risk Management

The global and regional effects being caused by the COVID-19 crisis are obliging companies to rethink both their short and long-term strategies. Of special attention is risk, with the current crisis representing an unforeseen systemic event and thus requiring action plans to be put in place which are different to those designed to deal with normally foreseeable risks. Companies must also deal with increased mergers and acquisitions activity during this time.

New challenges and implications:

**COVID-19 as a systemic risk**

The COVID-19 crisis can be categorized as a systemic risk, which generates change at a company level, but also at an economic paradigm level. Risk policies and control plans need to be able to manage a risk in COVID-19 which currently has no foreseeable endpoint and impacts all parts of a company’s operations and the market in which it exists.

**Short-term strategy: robust and flexible response plan**

To be resilient and pass through the crisis, companies must innovate and identify both risks and opportunities on how to adapt operations and customer interactions in light of disrupted value chains and changing consumer behavior. Doing so should secure their resilience and position them well when the crisis abates.

**Long-term strategy: implications and changes following the crisis**

Long-term strategies are shortening in horizons during the COVID-19 crisis, and companies should begin to focus on how to recover in the medium-term following the easing of restrictions, while minimizing ongoing complex risks, such as changes in consumer behavior. Any regulatory changes, especially in the area of compliance and reporting, should be considered. Temporary changes to ways of working and consuming may become permanent, and companies should assess risks and opportunities of operating in this new market, and be able to innovate accordingly.

**Compressed firm valuations are pushing M&A negotiations**

The short-term effects of COVID-19 on the M&A market have already shown its first signs with numerous deals having been pulled or delayed due to changing deal circumstances, compressed firm valuations and the suspension of meetings and negotiations. Companies should begin to rethink and plan their strategic acquisition agenda in order to position their businesses once the economy starts to recover, while also being aware of receiving hostile takeover bids.

**Key questions for Boards of Directors to think about and address going forward:**

- What are the key risks and pressures from COVID-19 and how resilient is the company to confront negative economic outcomes?
- What expertise is required to take advantage of new business contexts?

**How Cefeidas Group can assist your organization:**

- Create a holistic risk management process throughout an organization, ensuring oversight by the Board and the correct identification of all material risks.
- Conduct day-to-day monitoring of political and regulatory risk developments, allowing for short-term strategy recalibration.
- Identify long-term political and economic changes following the COVID-19 crisis and assist a company to review its strategy accordingly, taking into consideration new stakeholder engagement issues and changing political dynamics.
With companies addressing issues from all of the previous five areas during the COVID-19 crisis, leaders are also faced with communicating to both internal and external stakeholders about how their companies are dealing with the crisis. Making clear communications, and identifying all relevant stakeholders are key for companies to be able to effectively and consistently get their message across and demonstrate the leadership required to maintain stakeholder confidence.

**New challenges and implications: Communication with shareholders, clients and employees**

The key for corporate leaders to project confidence and assure precise management through the COVID-19 crisis is clear and consistent communication. Company CEOs should start thinking of, or revising, internal and external communication strategies on how to disclose their crisis management plans to their different stakeholders. Such communication determines how shareholders, clients and employees will feel towards the company in the long-term, and should thus be suitably targeted to each group. Identifying all relevant stakeholders is a prerequisite to achieving this.

**Confused messaging damages trust**

With the fast pace of changing regulations in many countries over enforced social distancing and business shutdowns, companies have been caught trying to keep up with whether their businesses can continue to operate, or in what form. Some companies have categorized themselves as essential businesses, only to then back-track following both worker and public backlash, demonstrating the pitfalls of premature decision making and quick communication.

The COVID-19 crisis will be long lasting, requiring waves of varying communication strategies, which include using both social and traditional media platforms.

**Demonstrating leadership and positive action**

While a crisis requires difficult decisions, there are also opportunities for companies to demonstrate their commitment to supporting their staff, clients and other stakeholders, such as healthcare professionals or local communities. However, it is also important to ensure that such efforts are not done in haste and are meaningful.

**Key questions for Boards of Directors to think about and address going forward:**

- How are crisis management plans and new strategies communicated to shareholders, clients, employees and other stakeholders? How are these stakeholders identified?
- If a crisis management committee exists how does the Board allocate responsibilities to it and how does this committee interact with management and the Board as a whole?
- How will the company communicate the economic impacts and threats to the company’s financial sustainability and business model?
- When could and should the company exit crisis-mode, and adapt its communications accordingly?

**How Cefeidas Group can assist your organization:**

- Create tailored crisis communication plans that categorize and assess risks and recommend messages, channels and timing for engagement with internal and external stakeholders.