

STANTON CHASE



**HOW BOARDS RESPONDED
TO THE COVID-19
BUSINESS & SOCIETAL CRISIS**

Introduction

Corporate boards have traditionally been looked to for reliable advisement: to provide steady oversight during “normal times” and strong leadership during times of uncertainty. We are still in the early stages of understanding the full impact COVID-19 will have on businesses and the role of business in wider society, but some notable corporate governance practices are emerging at those companies best managing the challenges of COVID-19. Organizations are increasingly looking to these success stories to see how they, too, can overhaul or tweak their governance structures and weather the crisis.

The responses from directors and CEOs suggest that although most boards have actively engaged with management during this crisis, a shortage of talent and creative and diverse thinking may have impacted leadership’s response to the pandemic crisis. The survey provides insight into how businesses are wrestling with the present challenges and implications for board improvement, including how boards can collaborate with management to ensure both a unity of response and the most effective course of action.

An effective corporate board acts as a steady compass during times of turmoil and uncertainty. The COVID-19 pandemic is the first global challenge of its kind for our modern, highly connected world and is testing the foundational elements of corporate governance and the role of boards in a crisis. For this reason, Nasdaq Governance Solutions and Stanton Chase Board Advisory Practice have surveyed directors, CEOs, and other C-suite level executives from 269 companies across 42 countries to gain insight into corporate governance leadership and the critical role boards are – or are not – playing during this extreme period of volatility.

“It’s critical that the board and management team are fully aligned on the corporate strategy, values, and culture, and that the board sets an example by leading from the top.”

–Joan Conley, Nasdaq Corporate Secretary

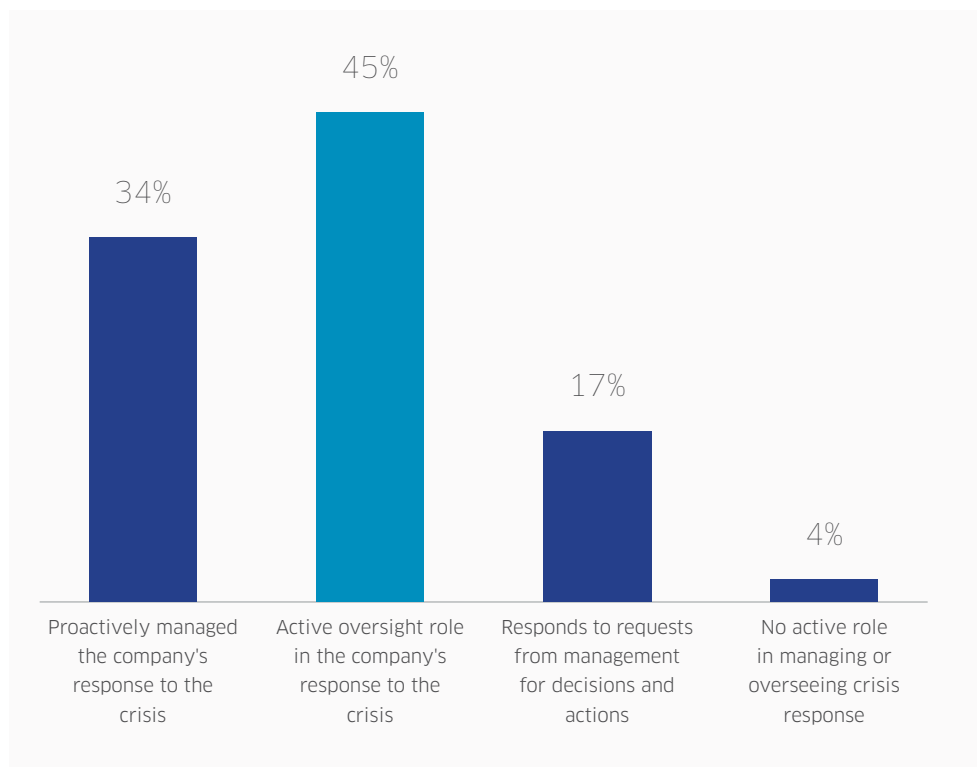
Strategy & Oversight

Role of the Board

The pandemic has shown both companies and countries alike that investing in preparedness can no longer be perceived as a luxury.

A majority (96%) of the respondents indicate that management and the board served an active role in helping their organization manage the crisis. Of these, approximately one-third suggested having had proactively helped navigate corporate response as COVID-19 emerged as a global emergency. Almost half of all respondents (45%) reported having taken an active role in providing oversight in the company's crisis response while 17% indicated having been more reactive, responding to requests from management for decisions and actions.

The responses suggest a shift wherein boards are assuming additional operational responsibilities and becoming an integral part of management during the crisis. However, while boards have generally taken a more active role in the company's crisis response, they should remain mindful of balancing this expanded role with a continued focus on their responsibility of oversight.



96%

of the respondents indicate that management and the board served an active role in helping their organization manage the crisis

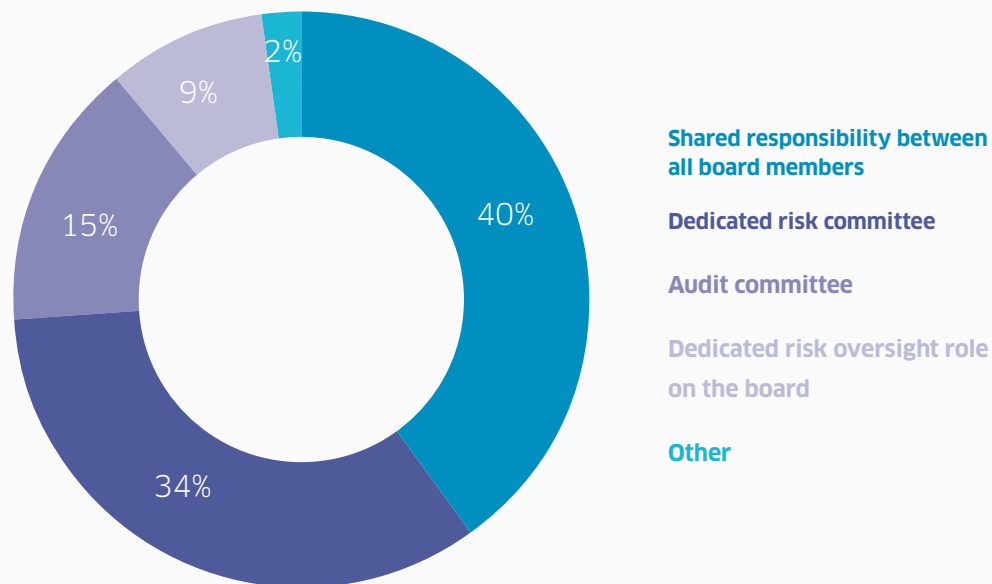
Risk Management Oversight

As corporate boards work to help companies navigate this unprecedented time, better preparedness is a key lesson.

Crisis, innovation, disruption, and business interruption are leading boards to consider establishing a dedicated risk committee to tackle granular issues with managers while the board, CEO, and senior management grapple with the wider issues of the enterprise.

The delegation of risk management can take on several forms with respect to the board. **Risk oversight, a fundamental responsibility of all boards, has been and should continue to be a top-of-mind subject and area of focus in the boardroom.** One-third of survey respondents reported that management of enterprise risk is handled by a dedicated risk committee while 40% indicated that responsibility for risk management is shared among all board members.

The fallout of the COVID-19 crisis is prompting businesses to re-evaluate their organization's risk management framework, including how well their boards performed with respect to their responsibility of risk oversight.



Emergency Succession Planning

Crises magnify the need for an emergency succession plan. When asked to describe their board's CEO emergency succession plan, three-fourths (76%) of respondents indicated an emergency succession plan is in place. 38% said their board had already chosen an interim CEO to step up if needed, and a quarter said their chair would fulfill the CEO's responsibilities in case of an emergency. 13% reported that a specific board member was appointed to take over the duties of CEO under such circumstances.

25%

The chair of the board is in charge of fulfilling the CEO's duties in case of an emergency.

13%

A board member has been appointed in charge of the CEO's duties in case of an emergency.

76%

of respondents indicated an emergency succession plan is in place

38%

The board has determined who would step in as interim CEO.

24%

There is no emergency succession plan currently in place.

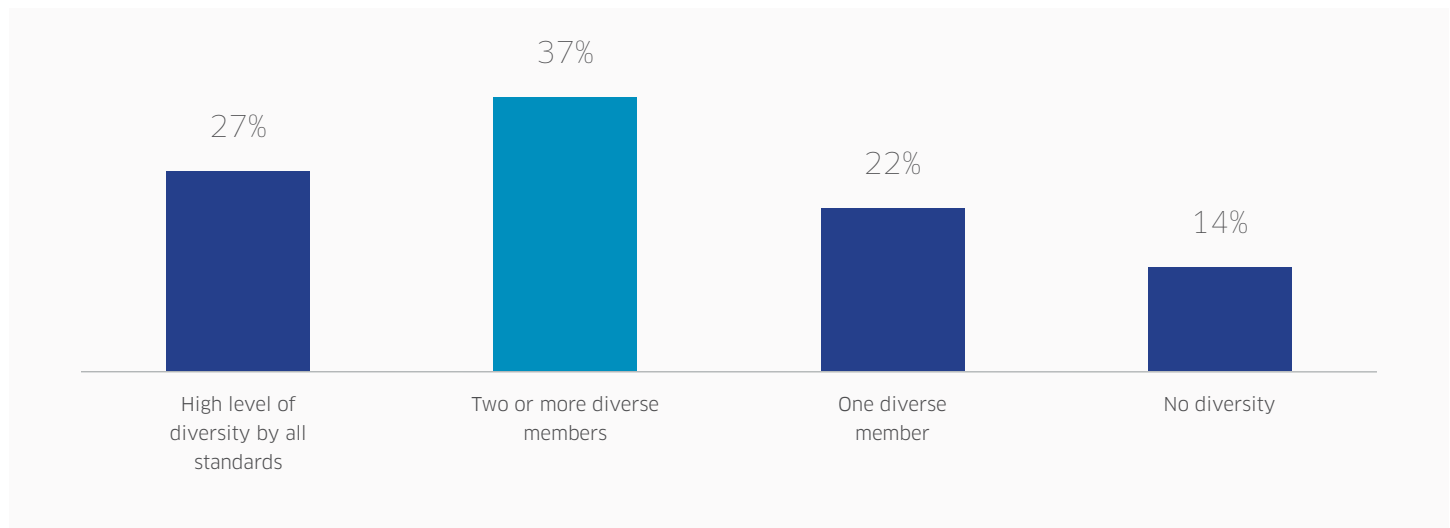
Diversity & Inclusion*

Diversity on Boards

Low diversity ratios have become an area of concern for many stakeholder groups. Against this backdrop, 36% of respondents indicated low or no diversity on their boards. **While this survey focuses on the COVID-19 crisis, global racial diversity is in the spotlight for institutional investors, governments, and consumers.**

According to survey data, while 86% of boards reported at least one diverse board member, only 37% reported having at least two diverse members. Perhaps an even more surprising finding is that 14% of participants reported a lack of diversity by any standard.

A positive practice in working toward the achievement of modern business sustainability is to set clear goals and milestones – for example, 100% diversity of at least one-third of the board. **Cognitive diversity may contribute to enhancing a board’s acumen and could be particularly helpful during periods of disruption, innovation, and change.**



Key Takeaway: Diverse Boards Were More Prepared

The survey responses suggest a relationship between those boards with higher levels of diversity and those that were better prepared to collaborate with management in confronting the crisis.

* In the context of the subsequent questions and analysis, diversity is defined as the inclusion of individuals representing more than one national origin, ethnicity, religion, gender, socioeconomic stratum, or sexual orientation.

How Boardroom Diversity Impacts Risk Management

While a direct relationship cannot be evidenced solely based on the results of this survey, responses may lend support to a relationship between diversity and proactive preparedness. Almost half (49%) of those who confirmed their board had a high level of diversity said their board had a clear risk management vision and strategy. Conversely, of respondents who indicated having no diverse representation on their board only 18% felt their board was clear on its risk management strategy.

Being prepared for a broader range of eventualities may require greater diversity of director skills, experiences, gender, race, nationality, and age. Boards may consider increasing internal engagement, including but not limited to the company's executive management team, as well as engagement with external stakeholders from investors to scientific, community, and government leaders to achieve broad and sustainable value creation.

Confirmation of clear risk management strategy

37%

... of all respondents on average

18%

... of those that don't have a diverse board member.

49%

... of those with a high level of board diversity

Taking Action

Board Response to COVID-19

The scope and pace of the COVID-19 crisis caught many companies off-guard. Respondents were generally positive about how their company responded to the pandemic and its downstream effects both in addressing the challenges that arose and adapting to the new digital landscape. This comes as somewhat of a surprise given that just a third of respondents reported proactively preparing for this type of situation. **Clearly, the level of preparation corresponds to a board's ability to respond to a crisis, and leadership that works in sync with management is more likely to have proactively prepared for this type of event.**

Board Effectiveness

Black swan events, while top of mind, are challenging to prepare for given their very nature, as reflected in the survey responses. For the purpose of this survey, “black swan” was defined as a metaphor for an event in which the probability of occurrence is low, but the impact is high.

When asked to rate on a scale of 1 to 4 (with ‘1’ representing “Failed to do so” and ‘4’ representing “Very effectively”) whether the board had previously discussed, evaluated, or conducted black swan exercises that may have helped prepare them for the current environment, the average score across respondents was 2.35. This suggests room for improvement with respect to exercises intended to provide sufficient preparation.

In other areas such as management's implementation of risk management policies and procedures as well as how effectively the board worked with management to communicate with internal stakeholders, the average ranking across participants was particularly high – 3.35 and 3.30, respectively. **At 3.21 out of 4, respondents seemed to indicate a generally positive response to how effective the board was in terms of having a clear risk management vision or strategy in place, including goals and objectives, and encouraging an organizational culture of risk awareness.**

Management's implementation of risk management policies and procedures	3.35
Working effectively with management to communicate with internal and external stakeholders during the crisis	3.30
A clear risk management vision or strategy including goals and objectives was in place	3.21
Policies and procedures for risk that are consistent with the organization's strategy and risk profile	3.19
Encouraging an organizational culture of risk awareness	3.16
An ongoing and structured process to update the company's risk profile / appetite / tolerance as changes take place in the marketplace	3.03
Prior to the COVID-19 pandemic, the Board discussed, evaluated, and conducted "black swan" exercises that helped prepare us for the current environment. (In risk management, "black swan" is a metaphor for an event in which the probability of occurrence is low, but the impact is high)	2.35

3.21

OUT OF 4
generally positive response
to board effectiveness

What keeps you up at night? "While responses to this question vary with the company's industry, challenges, and life cycle, the answer is never 'nothing'."

—Byron Loflin, Global Head of Board Engagement, Nasdaq

Challenges Presented by the Crisis

The coronavirus pandemic has spelled out numerous challenges for many businesses around the world, and boards have been tasked with trying to address these new issues along with the everyday running of business. Many industries are facing unprecedented job losses, which poses one of the most immediate and far-reaching challenges.

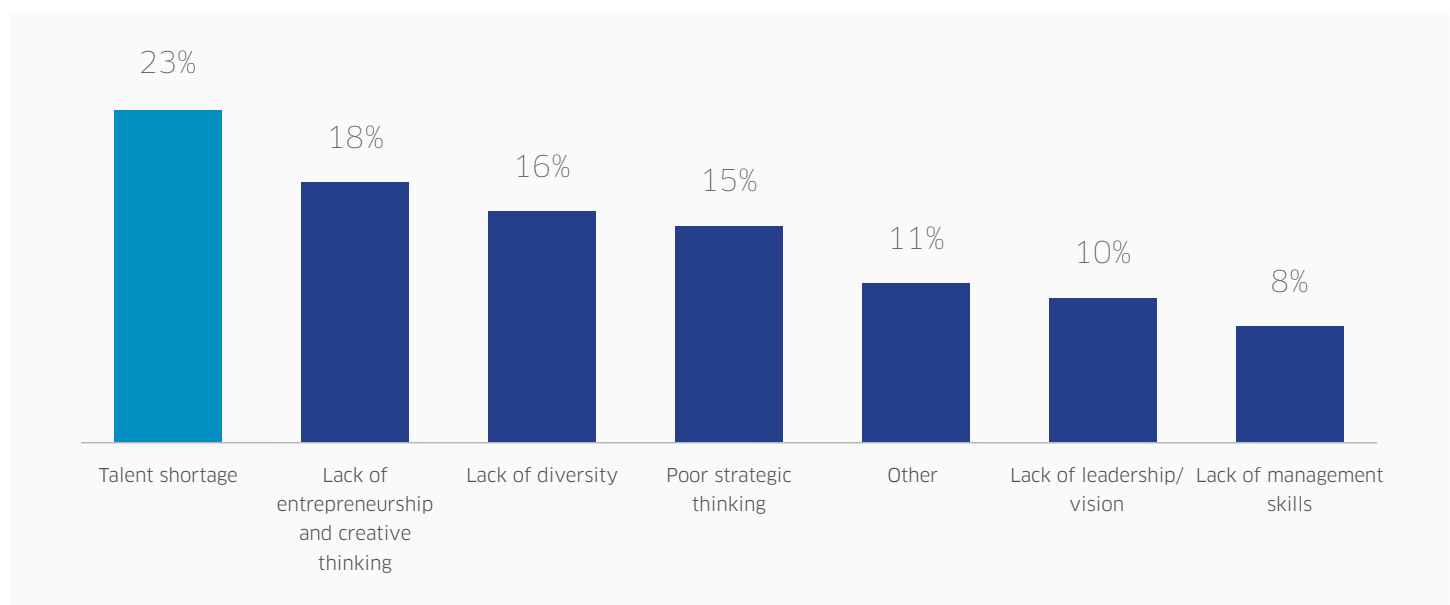
Our findings highlight human capital management as a critical area of focus for boards and management. **The responses suggest that the ability to acquire and retain top talent is an area garnering significant attention at the board and management level.** Particularly considering the myriad challenges posed by COVID-19, companies need to focus on being well-positioned to maintain a competitive edge. **To accomplish this, the survey group indicates that a need to improve creative and strategic thinking is a priority – 33% of our respondents cited these two as items where their boards currently fall short.**

For example, one respondent in the food supplier industry said the most significant challenge was simply that the board was not prepared for a crisis of this scale: “Existing processes had to be ‘reactively’ implemented to mitigate the impact of the crisis.” While the board in question did “eventually manage to gradually contain the impact, the highly unpredictable and complex ramifications of this pandemic – unlike financial or economic black swans – necessitate putting into place a unique and versatile risk management specially designed to deal with a crisis of this nature.”

Several respondents cited the speed with which the crisis impacted their industries. “As a high-growth company, the management team has been stretched to execute [our] original business plan,” one person commented. “While the company has been moderately impacted by the COVID-19 crisis, we haven’t had time to conduct a post-crisis evaluation or a forward-thinking strategic plan.”

Others made a point of expressing support for their board's response and solidarity with the company.

“I believe that the leadership team has been extremely agile with the changing environment, managed their teams very well, and ensured customer connect very well,” noted a respondent from the hospitality sector. “The crisis will result in a setback to the business and possibly require the company to raise more capital. But it has so far reinforced our confidence in the strength of the company and leadership to deal well with the battle.”



“With continual focus on driving long-term value, the recruitment, motivation, and retention of top talent throughout the organization is paramount. Not only does this mean companies can successfully compete now, but also that they can build a high-quality pipeline for future executive appointments.”

–Michael Bartels, President of Nasdaq Governance Solutions, Nasdaq

Technology & Innovation

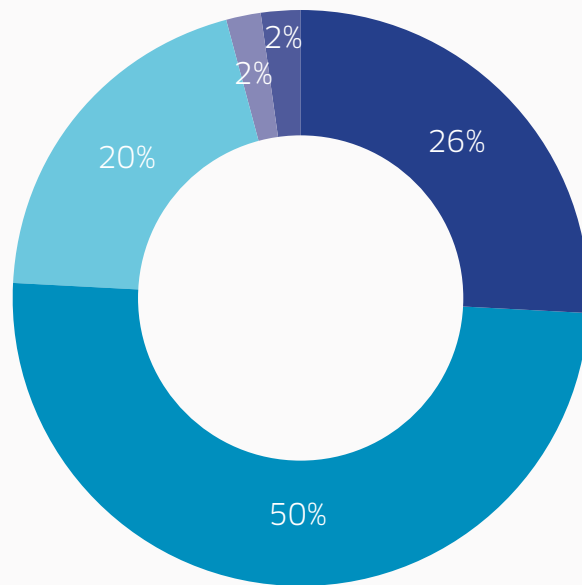
Digital Solutions Used by Boards

The global pandemic has highlighted the importance of being prepared for risks of all kinds. This means being adaptable and open to adopting new technologies and ensuring clear and regular channels of communication that can be implemented securely. A path of ongoing technological advancement at the board level and throughout the organization can lend to more effective strategic meetings, collaboration, governance, and decision-making.

In addition to providing an extra layer of security, board portals can be used to drive governance across the enterprise. They offer a flexible suite of governance tools to streamline meeting administration and provide a collaboration space for users. Furthermore, they facilitate subsidiary governance and drive efficiency.

Surprisingly, just over a quarter of companies surveyed confirmed their boards utilize digital services for board and collaboration software. However, half reported leveraging some sort of document sharing software. Therefore, a positive relationship may exist between companies that leverage board solutions and those who rated themselves highly in terms of managing the crisis. It is likely that digital solutions facilitated their ability to communicate with relative ease and transparency while responding quickly to the evolving environment.

Subsequently, when asked to further reflect on the effectiveness of their board's current digital tools, a majority 80% rated such services as helpful, with more than half of those (44%) deeming them "essential." Only a small percentage (7%) shared that, while they felt the digital tools available were helpful, there was still room for improvement.



State-of-the-art digital board and collaboration software solutions

Standard document-sharing platform (e.g. Dropbox, Box, SharePoint, etc.)

Our board does not use digital tools other than standard email and calendar

We are looking for a digital solution

I don't know

Key Takeaway: Digital Board Collaboration Tools Make Boards More Efficient

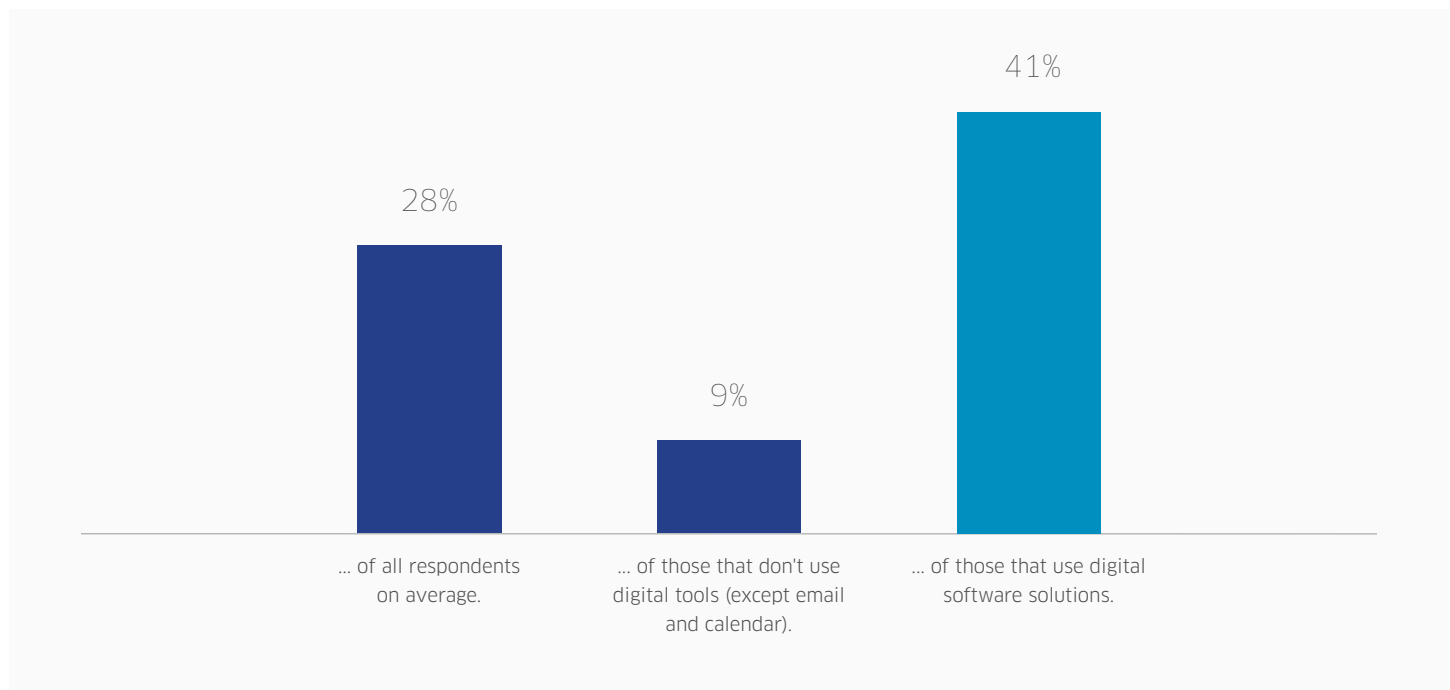
Regulatory scrutiny, globalization, competitive pressures, and an increase in shareholder activity have significantly increased the scope and volume of board work. Thus, the digitalization of the boardroom has a positive impact on empowering knowledge and decision-making.

Boards That Use Digital Solutions vs. Those That Don't

41% of those that use digital tools confirmed they have a structured process to update the company's risk profile in place. This compares strikingly to only 9% of those that don't use modern digital tools. Learn how Nasdaq Boardvantage® intuitive board portal can help drive governance excellence. Visit: nasdaq.com/solutions/boardvantage

The survey results point to talent, innovation, diversity, and preparedness as being key drivers of board effectiveness.

% of respondents confirming that their board ensures an ongoing and structured process to update the company's risk profile...



Conclusion

The results of our survey indicate that an important task for an effective board is to look out for potential risks ahead or those that could hit the enterprise from the side. While boards are generally taking an active role with management in response to the crisis, less than 60% responded that they were engaging in table-top or black swan examination exercises.

“During the past 10 years, overseeing third-party board evaluations and accentuated by this crisis, two aspects of difference emerge: Boards that measure what matters and who are willing to undergo a robust self-examination significantly outperform their reluctant peers.”

Byron Loflin, Global Head of Board Engagement, Nasdaq

Determining how to most effectively reimagine a business, perhaps from the ground up considering new and changing circumstances, is what boards will likely grapple with in the coming weeks and quarters. **Even some of the companies that had proactive risk prevention mechanisms, risk systems, and strategies in place deemed these insufficient during COVID-19.** Whereas many boards may have historically focused their risk discussions on areas like cybersecurity or industry disruption, this crisis has highlighted the need for further board effectiveness and alignment with management.

In discussing how boards can prepare for the aftermath of this crisis, Panos Manolopoulos, Managing Partner, Stanton Chase Dubai points out that the previously common **“ad-hoc or crisis-driven short-term approach is now obsolete”** and the **“current coronavirus crisis, while unprecedented in modern history, is proof that boards should be dealing with crises as the new reality.”** This new, active approach, he suggests, should include not only establishing a crisis team but also digitalizing enterprise governance, defining a unifying recovery effort, and keeping lines of communication open always.

Board and C-level executives have demonstrated a willingness to step up and take on additional responsibility.

Four key priorities for boards can be found within our survey:

- Identify and retain top talent
- Promote entrepreneurial and creative thinking
- Increase board diversity
- Continue to focus on strategy

Diversifying input across board and leadership together with the utilization of more advanced digital solutions are two suggested first steps along the path to preparedness. Recruiting, growing, and retaining top talent who could help the company prepare for what's ahead may lend to improved strategy.

Boards may wish to attempt to integrate these issues into the way they are structured and organize their work.

Specific areas that are crucial for boards to focus on in preparation for a crisis include:

- CEO succession planning
- Diversity for effective board composition
- Crisis management oversight, scenario analysis, and horizon-scanning activities
- Risk appetite aligned with strategy and business modeling
- Systemic risk modeling and embedment of risk culture
- Supervision of strategic and operational planning
- Talent management
- Creative and entrepreneurship thinking
- Purpose leadership and vision
- Purpose driven strategy
- Alignment of boards and executive teams

An integrated approach to corporate governance is the essence of long-term value-oriented capitalism and the vast opportunities that stakeholder capitalism offers.

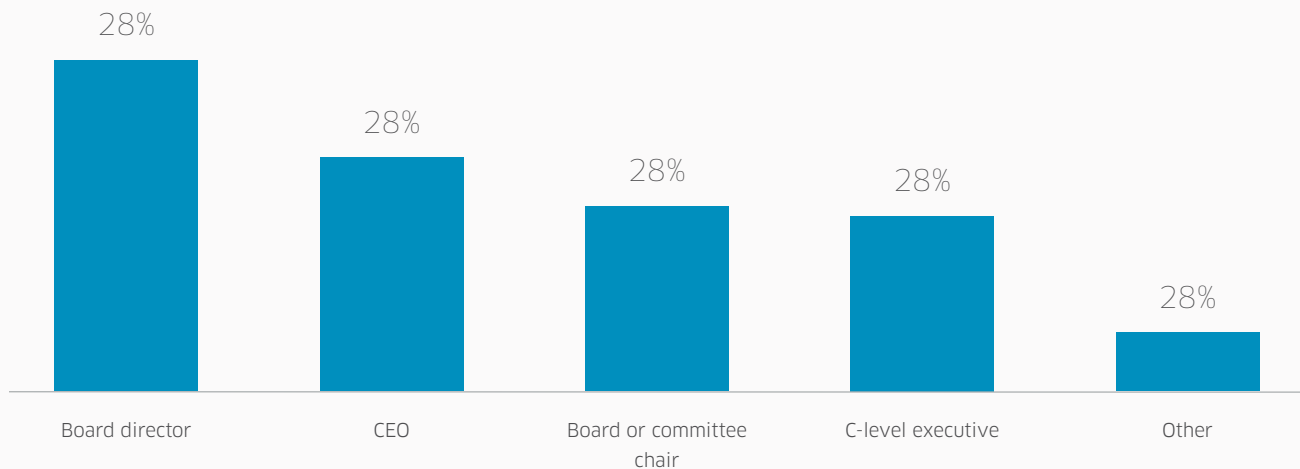
Looking toward the future, corporate purpose, culture, and values are being advanced as driving forces for long-term value creation in the new economy. Aligning purpose, culture, and values with company strategy should be complemented by a level of reporting and engagement that responds to key stakeholder concerns and communicates that the board is fit for purpose.

Appendix

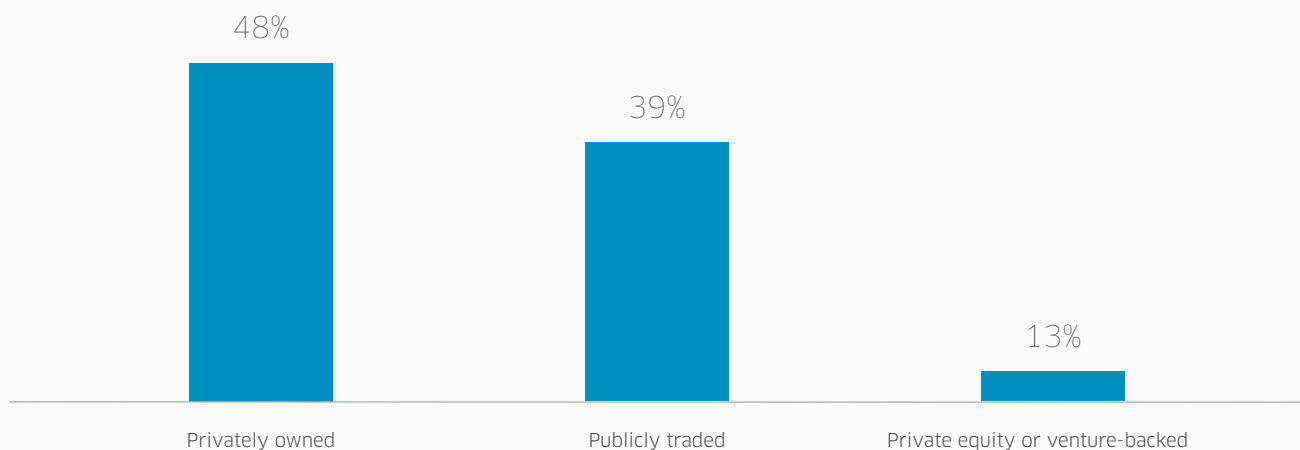
Among the total of 269 executives who responded to our survey, more than one-third (34%) were board directors. Approximately one-quarter (24%) were CEOs, 19% were board or committee chairs, and 18% were C-level executives (not CEOs).

Almost half (48%) of respondents represented privately owned businesses in 42 countries around the world, with almost 15% hailing from the United States. Just over a quarter (26%) of all respondents reported annual company earnings of between \$101 million and \$500 million, and 39% said their company earned less than \$100 million a year. Almost one-fourth (22%) work in the financial services sector, while 16% work in the consumer products and services sector and 14% in the industrial sector.

Survey Participants' Roles



Company Form



Nasdaq Governance Solutions www.nasdaq.com/solutions/nasdaq-governance-solutions

Stanton Chase www.stantonchase.com

© 2020 Nasdaq, Inc. The Nasdaq logo and the Nasdaq 'ribbon' logo are the registered and unregistered trademarks, or service marks, of Nasdaq, Inc. in the U.S. and other countries. All rights reserved. This communication and the content found by following any link herein are being provided to you by Corporate Solutions, a business of Nasdaq, Inc. and certain of its subsidiaries (collectively, "Nasdaq"), for informational purposes only. Nothing herein shall constitute a recommendation, solicitation, invitation, inducement, promotion, or offer for the purchase or sale of any investment product, nor shall this material be construed in any way as investment, legal, or tax advice, or as a recommendation, reference, or endorsement by Nasdaq. Nasdaq makes no representation or warranty with respect to this communication or such content and expressly disclaims any implied warranty under law. At the time of publication, the information herein was believed to be accurate, however, such information is subject to change without notice. This information is not directed or intended for distribution to, or use by, any citizen or resident of, or otherwise located in, any jurisdiction where such distribution or use would be contrary to any law or regulation or which would subject Nasdaq to any registration or licensing requirements or any other liability within such jurisdiction. By reviewing this material, you acknowledge that neither Nasdaq nor any of its third-party providers shall under any circumstance be liable for any lost profits or lost opportunity, direct, indirect, special, consequential, incidental, or punitive damages whatsoever, even if Nasdaq or its third-party providers have been advised of the possibility of such damages. 2062-Q20