

A high-angle, top-down view of a large, intricate maze made of light-colored stone or concrete walls. The maze is complex with many paths and dead ends. In the upper right quadrant, a small, dark silhouette of a person is walking through the maze, providing a sense of scale. The overall lighting is bright and even.

2020

SUMMARY REPORT OF ECODA'S SERIES OF WEBINARS

Impact of the Covid-19 crisis on board members: what are their responsibilities in disruptive times?



These past several months were subjected to major changes due to the unprecedented Covid-19 outbreak.

In record time, the whole society had to adapt and to face this emerging threat, sometimes leading to a complete lockdown of the economy and social life of European countries. In order to avoid an economic disaster, companies had to reinvent themselves, to adapt to demand and most importantly, to secure their activities and employees. Boards' concerns have therefore increased, with emerging challenges, with the specter of bankruptcy but also new opportunities to seize.

As the European Confederation of Directors' Associations, ecoDa decided to develop a series of 4 webinars to support European board members in this disruptive time.

From ethics to the importance of a dialogue between directors and stakeholders by way of the question of deglobalisation and crisis management, our high-level speakers shared important advices but also inspiring thoughts.

These in-depth discussions are compiled in this report to guide and inspire boards' practices in times of crisis.

Webinar 1 - How ethics can remain a driving force while priorities have shifted ?

June 2 - 11.00-12.00 CET

The panelists, Anthony Smith-Meyer, Dr. Ian Peters and Roger Barker, guided by Gro Braekken, acting as the moderator, discussed on how ethics can remain a driving force while priorities have shifted.

Companies with a clear ethics-based business model, an appropriate culture and a defined business purpose will be more resilient to the crisis. Companies cannot invent a corporate ethics or culture overnight. Ethics must be part of the foundations of the company. It is a key factor underpinning a corporate's actions. However, it is never too late to start and define a clear ethical business model. In fact, it has never been a more obvious time to start the discussion.

Companies with strong ethics have created a relationship of trust with their stakeholders on which they will be able to rely to demonstrate agility and adaptation in times of crisis. Today's society needs authenticity. The young generation has the willingness to speak up more than ever, they have high expectations. The wider society has a lower tolerance for short term setbacks. Businesses cannot afford to exploit the current situation for their own short-term profit. The crisis is a strong call to set aside selfish interests to serve the greater good. There is an opportunity for business leaders who know how to connect with shareholders and other stakeholders, to stand out.

What is expected of leaders is that they demonstrate integrity by showing emotional intelligence. They must be able to demonstrate that they continue to pursue a societal mission while making the decisions that are necessary for the company. They must be able to justify their decisions with a clear narrative in line with their values and their corporate purpose. In other words, companies willing to build their social capital have to show that their decision making is based on sound ethical and socially responsible principles. If companies' behaviours are not consistent with their values, their persuasion power will decline and companies will face a societal backlash.

The crisis has also highlighted the need for companies to create a professional environment that allows more flexible room for manoeuvre but framed by clear expectations.

The role of the board of directors is crucial in defining the main relevant stakeholders, in understanding their expectations and defining the characteristics of the corporate culture. Directors will find themselves in unprecedented dilemmas where their business judgment will be put to the test and where they will have to challenge their own assumptions. There is no ready-made solution in matters of ethics. Moreover, directors must define different CEO

profiles that are suited to the corporate mission and values and assess CEO performance against their integrity.

Boards' composition is also crucial. More than ever, board members are needed who can challenge decisions and avoid cognitive bias when making decisions. It is not certain that the current composition of most boards is ideal for responding to the crisis. The motivations that supported the current composition might no longer necessarily respond to today's imperatives.

To conclude, in times of crisis, displaying transparent decision-making and an authentic narrative is crucial to benefit from a good reputation and trust from the public.

Speakers:

- Anthony Smith-Meyer, Independent Director, Compliance and Governance Activist and Educator,
- Dr Ian Peters, Director, Institute of Business Ethics (IBE),
- Roger Barker, Head of Corporate Governance, IoD.

Moderator:

- Gro Braekken, ecoDa's board member.

Webinar 2 - Crisis management and risk control: How board performance will be judged ? Board members need to think differently

June 4 - 11:00 -12:00 CET

The discussion led by Charlotte Valeur fostered reactions from Daniela Weber-Rey, Pascal Durand-Barthez, Lutgart Van Den Berghe and Matt Dalton on what are the impacts of the COVID-19 crisis on boards' duties, boards' agenda and corporate governance as a whole.

All the speakers have clearly observed new ways of working for board members during the crisis. If one still doubted it, the crisis only confirmed that *'a non-executive director is a part-time job, but a full-time duty'*¹. Board members faced the reality that if they want to be able to devote sufficient time to their directorships, they must limit the number. Over the past months, board members had to be available on short notice of time and actions had to be taken quicker. It is still true that board members have to be flexible in shifting gear on board matters towards more managerial and operational matters, staying closer to the daily operations. They need to operate as the sounding board whenever necessary, to discuss pro-actively potential response plans, and to get much more hands-on governance. In other words, board members have to support the management and not only to control them. However, being involved on operational matters does not mean that the long-term perspective should be neglected. Now, more than ever, a long-term post Corona strategy and reset of the business plan are necessary.

This led the panelists to wonder about the changes in the way directors think. Crises force boards to expand their thinking. The definition of doing the right things has changed (Cf. Cadbury Code). The way boards will address these issues and adapt themselves will be the main criteria on how they will be judged. HR challenges and the question on how to keep the workforce healthy are more than ever on the agenda of board meetings. All leaders need to show empathy, to keep the trust of their employees and to take a fresh look at their customers in order to adapt services and products. The Covid crisis operates as a catalyst of existing trends. All new trends point to more attention for stakeholder governance, going far beyond the traditional shareholder governance model. Greater expectations are expressed towards the societal role of the business world, with clearer accountability rules and critical monitoring of a responsible business world. Board members are there to be "the radar of the future". However, submitting to the exercise of defining the purpose of the business is not an end in itself. It is also necessary to understand the consequences the exercise has on the manner of evaluating performance and on the perilous exercise which is incumbent on the directors to arbitrate divergent interests. The time horizon of the business world will get much longer than the attention for quarterly reporting. Board members should therefore be prepared for more work. In view of all the tasks that fall to directors, they should also be

¹ Charles Honée 'De Rijnlandse visie sleept ons door de crisis heen', Management scope 2020

prepared to see their responsibilities more questioned, especially in the event of bankruptcy.

Training board members for the next crisis is a real challenge for the institutes of directors. But being able to think differently and to get prepared for the next crisis will only be possible if board members' diversity is enhanced. However, the speakers highlighted the risk of seeking more skills within boards for the sake of it. According to them, it is not because a board member has technical competence that he/she is efficient. They have seen in the past, boards of directors calling on digitalization experts who very often focus only on their area of expertise and lack competence in the industry. Nor do the panelists think that focusing on the presence of independents or increasing the number of committees are solutions for the future. When it comes to directors' training, less attention should be on content than on board dynamics. At the end, directors will be judged on how they walk the talk, rather than solely on the on the profit and the turnover. There is certainly much to learn from the financial sector and how we came out of the 2008 financial crisis.

Questioned about the role that regulators should play in the post-crisis period, the speakers remain convinced that responsible and trustworthy cooperation on the board will have more effect than hard law. According to them, the real changes will come from the capacity and commitment of board members to seriously assess their individual and collective performance.

Speakers:

- Daniela Weber-Rey, Non-executive Director,
- Pascal Durand-Barthez, IFA,
- Lutgart Van den Berghe, Non-executive director,
- Matt Dalton, Mazars, Partner for Internal Audit and Risk Management.

Moderator:

- Charlotte Valeur, ecoDa's board member.

Webinar 3 - Has the COVID-19 crisis already set the direction for future supply chains – to be more local and less depending? Is this the beginning of deglobalization as a strategy?

June 11 - 11:00 -12:15 CET

The Covid crisis has highlighted the dependence of companies on their supply chains and has had a significant impact on trade flows worldwide. The growth prospects are uncertain and the participants in the webinar questioned are rather pessimistic about the chances of resumption of international trade. It is difficult at this stage to predict whether the recovery curve will be asymmetrical or in U-shape. One thing is certain, it will be necessary to produce more to catch up with the past level of trade.

The purely economic consequences of the crisis are aggravated by opportunistic behavior in certain countries which advocate protectionist approaches. Other states see it as an urgent call to renationalise their strategic industries. The crisis is also changing the situation in the sense that certain small countries through the acceleration of digitalization are gaining competitive advantages unexpected a few months ago.

In these circumstances, the boards of directors are subject to real uncertainty. They must rethink their value chains while avoiding concentrating all the risks. The recovery capacity of corporates involves the need to take advantage of possible opportunities while having at heart a long-term vision of the business strategy. Board members have to manage the crisis, support the management while keeping their eyes wider open.

At the start of the crisis, few boards had a full understanding of their supply chains and could anticipate the suppliers' risks. Directors must be fully aware of underlying movements and the risks of downturn. However, this does not mean that they must follow these movements which can prove to be very volatile. They need to analyze long term trends like the ESG issues or sustainability which will necessarily impact the way in which their business is driven. The new societal paradigm requires companies to find new business models with more resilient supply chains. What is the most critical today is to invest in the long term rather than maximising the short term profit.

Whatever happens, businesses are unlikely to return to unique value chains. They must put value chains back at the heart of their strategy and their quest for authenticity.

Training board members for the next crisis is almost an impossible task, rather it is to prepare them for the unexpected. No crisis is alike. The 2008 crisis is very different from the Covid crisis. It would be a mistake to look at a new crisis through the lens of a past crisis. Board members should keep an eye on what is happening in China and observe the trends taking place there.

Speakers:

- Benoît des Cressonières, CEO Euler Hermes Reinsurance AG,
- Matthew Burton, EMEIA SC&O Leader, EY,
- Thomas Thune Andersen, Chairman & Independent Board Director Companies, Oersted, VKR Holding, Lloyds Register Group and Foundation,
- Tom Behrens-Soerensen, Chairman & Independent Board Director Companies Danish-Chinese Business Forum, ECCO Group A/S, RAK Ports, WSS Ltd,
- Thomas Plenborg, Chairman & Professor, DSV Panalpina A/S, COWI A/S, Rosemund Aps, Copenhagen Business School.

Moderators:

- Tom Jacobsgaard, ecoDa Board Member,
- Steen Thomsen, Novo Nordisk Foundation Professor at Copenhagen Business School.

Webinar 4 - Dialogue between directors and stakeholders in times of crisis

June 25 - 11.00-12.15 CET

At the last webinar of our series, the panelists, Benoît van den Hove, George Dallas, Jose Luis del Valle, Andrea Bischoff, and Mark Simms, were questioned by Alessandra Stabilini, acting as the moderator on: What type of dialogue's dynamic to establish in the event of a crisis? How to maintain confidence in the corporate governance when formalization of face-to-face meetings is more complex?

All the panellists agreed that there was no rulebook for the Covid crisis, the economic system was not built to cope with this type of crisis. Shareholders have clearly sought increased dialogue with companies possibly involving sensitive issues such as the future perspectives of the business, changes in strategic plans, and so on. The European Securities and Markets Authority (ESMA), the EU Securities Markets regulator, quickly published a public statement addressing the implications of the COVID-19 pandemic on the half-yearly financial reports of listed issuers. The statement highlighted the importance of providing relevant and reliable information, which may require issuers to make use of the time allowed by national law to publish half-yearly financial reports while not unduly delaying the timing of publication. It was important to stress that without transparency, the markets cannot function properly. Issuers were clearly forced to reassure the investors.

Even for companies which were struggling in reshaping their strategy, they had to show that the board was keeping the control and was agile enough to face uncertainty. The ability of the chair and the CEO to coordinate and act in good intelligence was a real asset. Ensuring effective communication with shareholders does not mean overwhelming them with press releases.

In many European jurisdictions, special provisions have been enacted restricting (or even erasing) the right of shareholders to physically participate in annual meetings of listed companies, due to public health reasons. It seems that this did not impact the participation rate in general meetings. Panelists discussed the form that general meetings should take in the future. If they saw the advantage of being able to attend several digital general meetings in a single day, they considered it important to maintain a certain degree of physical presence. Certain companies which sought to modify their statutes to authorize only general assemblies in a remote way opposed the refusal of their shareholders. An hybrid approach could be the best solution in the future.

Digitalisation will also impact the roadshows organised prior to the listing. This will multiply the possible interactions while limiting the time necessary for these exchanges.

Given that the crisis can exacerbate conflicts of interests among the different types of shareholders (retail investors vs institutional investors, active vs passive investors,

controlling shareholders vs minorities, etc), it is important for boards not to distinguish among them and to keep the same level of involvement.

During the crisis, some companies have sought an increase recourse to debt via issuance of corporate bonds. The relative position of debtholders vis-à-vis shareholders changes accordingly and forces the Board of the issuer to adapt. Conflicts between equity and debtholders also tend to increase in a situation of crisis of the firm, especially with regard to capital allocation decisions and dividend distributions. What is crucial within a company is to remain consistent and to deliver the same message to the different investors. Coordination between the spokespersons of the company is necessary, because it is not always the same who deal with the debtholders and the shareholders.

All panellists agreed that if shareholders have to play an important role, It is time to move towards a model of « company primacy » and to integrate a multi-stakeholder perspective. Stewardship codes are already involving in that direction by requesting a stronger duty of care from investors. Stewardship codes could go further by promoting collective responsibility.

Speakers:

- Benoît van den Hove, Head of Listing at Euronext Brussels,
- George Dallas, ICGN, Policy director,
- Jose Luis del Valle, Non Executive Chairman of a Listed company as well as Independent Board Director in two Listed companies,
- Andrea Bischoff, Managing Director, Morrow Sodali,
- Mark Simms, Chief Executive Officer, CMI2i.

Moderator:

- Alessandra Stabilini, ecoDa's board member.

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About the European Confederation of Directors Associations:

The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its 22 national institutes of directors (the main national institutes existing in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa's member organizations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted. www.ecoda.org

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