

How Boards Responded To The COVID-19 Business And Societal Crisis



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.

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 important corporate governance practices are emerging at those companies which are best meeting 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 in the future, including how boards can work together with management to ensure both a unity of response and the most effective course of action.

“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

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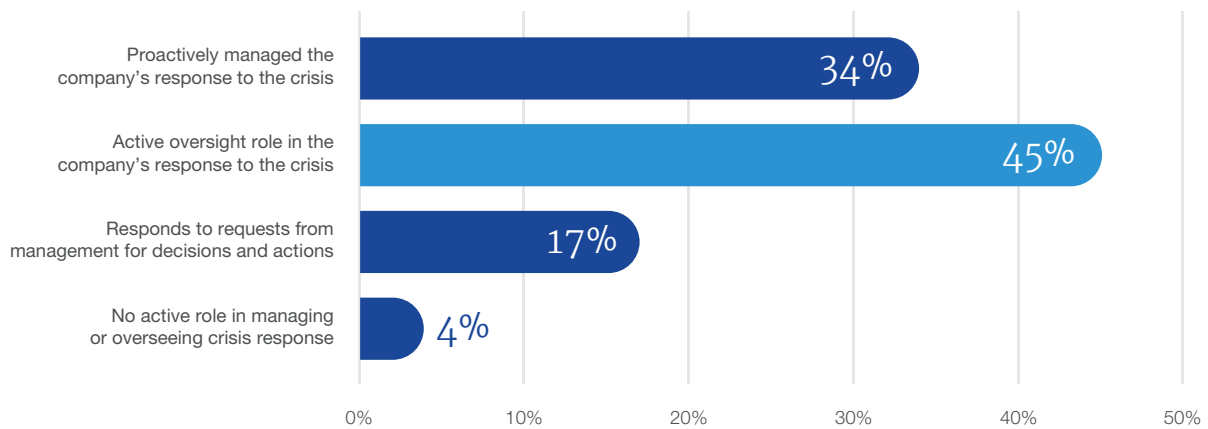
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Strategy & Oversight – Preparedness for a Crisis

What Role Did Boards Take On As The Crisis Unfolded?

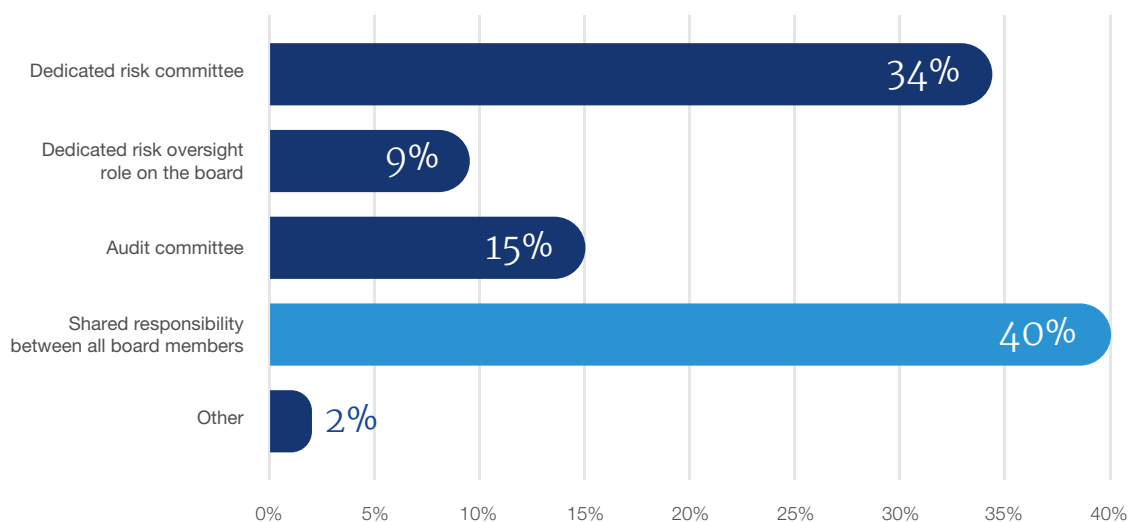


Nearly all (96%) respondents indicated that management and the board served an active role in helping their organization manage the crisis. Of these, approximately one-third suggested having had proactively helped navigate corporate response as COVID-19 emerged as a global emergency. Almost half (45%)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

Who Leads Risk Management Oversight For Your Board?

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

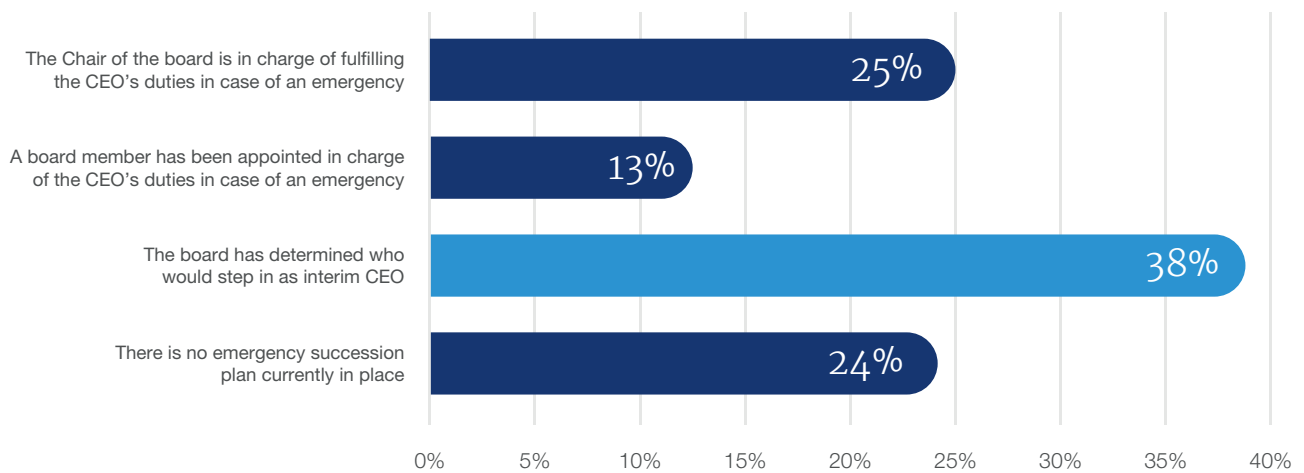


The delegation of risk management can take on several forms with respect to the board. Risk oversight, a fundamental responsibility of all boards, has been and should continue to be a top-of-mind subject and area of focus in the boardroom. One-third of survey respondents reported that management of enterprise 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.

What Is Your Emergency CEO Succession Plan?

Crises magnify the need for an emergency succession plan.



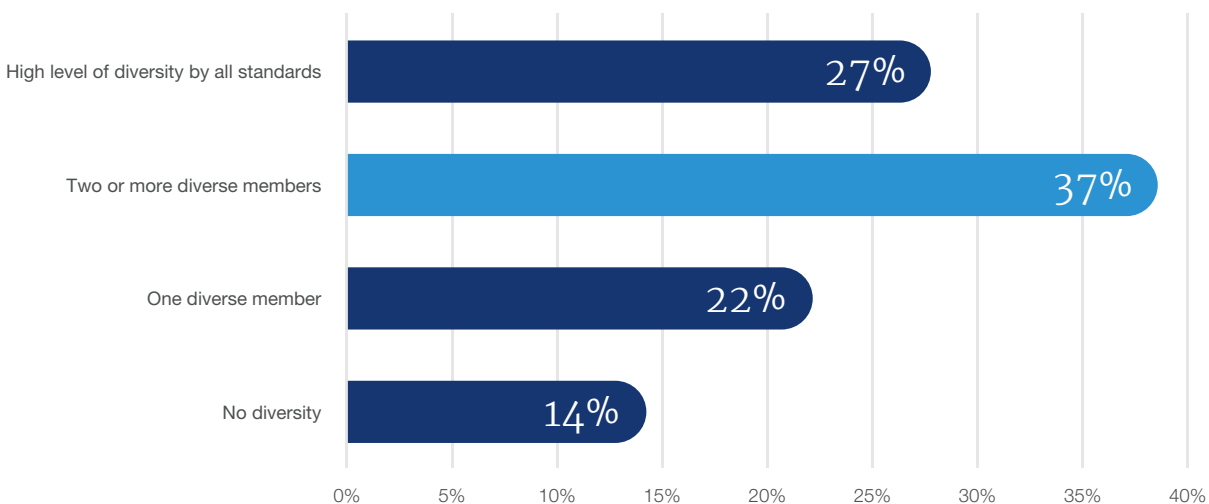
When asked to describe their board's CEO emergency succession plan, three-fourths (76%) of respondents indicated an emergency succession plan is in place. 38% said their board had already chosen an interim CEO to step up if needed, and a quarter said their Chair would fulfill the CEO's responsibilities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

Diversity & Inclusion – Enhancing Disruption, Change, and Innovation

How Diverse Is Your Board?

[Note – 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.]

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.

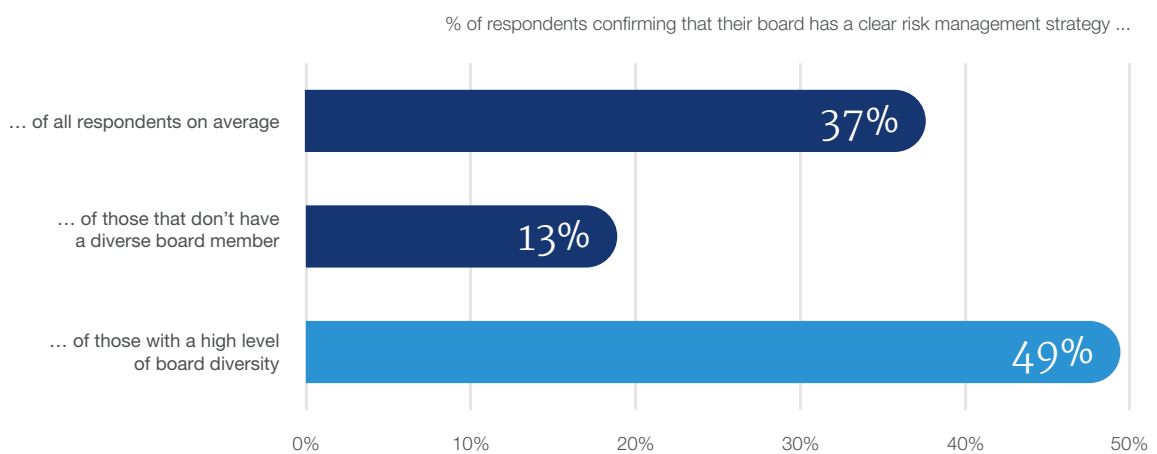


According to survey data, while 86% of boards reported at least one diverse board member, only 37% reported having at least two diverse members. Perhaps an even more surprising finding is that 14% of participants reported a lack of diversity by any standard.

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.

Diverse Boards Were More Prepared

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



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.

Taking Action – Managing A Crisis Response

How Well Did Boards Respond To The COVID-19 Crisis?

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.

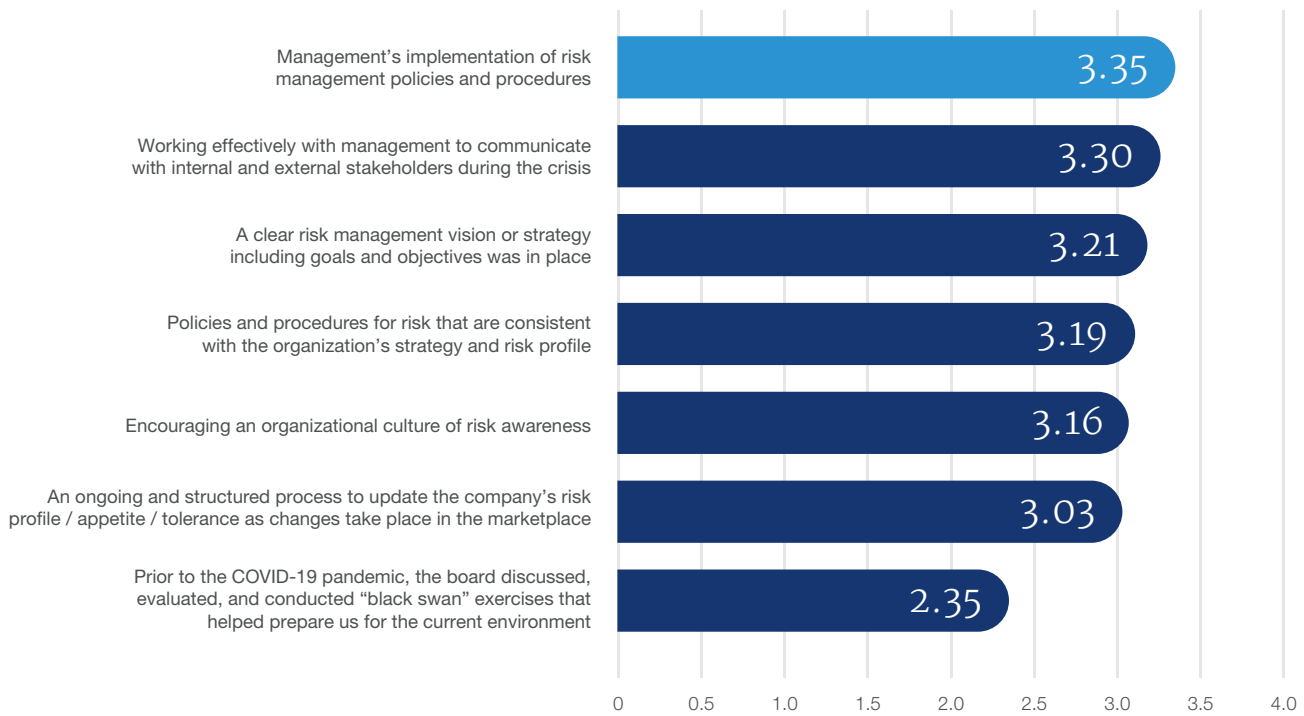
Byron Loflin, Nasdaq Head of Board Engagement, says that when conducting interviews as part of a comprehensive board evaluation, they often ask directors what it is that keeps them up at night. "While responses to this question vary with the

company's industry, challenges, and life cycle, the answer is never 'nothing'," he said.

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" is 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.

How effectively did the Board ensure the following?



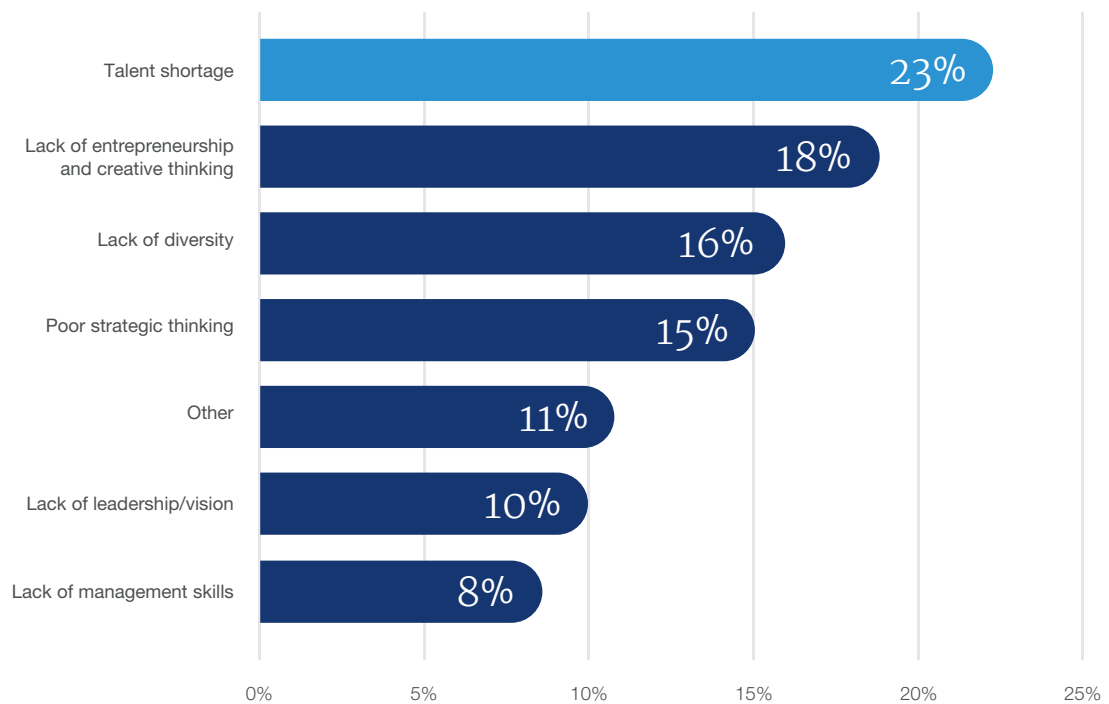
In other areas such as management's implementation of risk management policies and procedures as well as how effectively the board worked with management to communicate with internal stakeholders, the average ranking across participants was particularly high – 3.35 and 3.30, respectively. At 3.21 out 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.

What Were The Most Significant 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. Michael Bartels,

President of Nasdaq Governance Solutions, says that “with boards’ 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.”



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 in light of 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.”

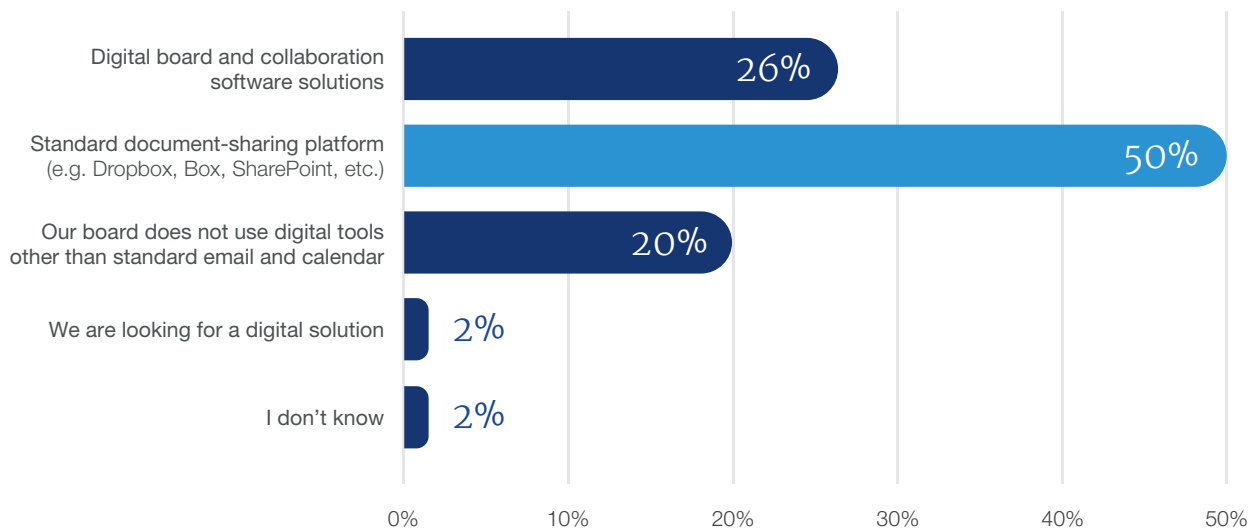
Others made a point of expressing support for their board’s response and solidarity with the company as a whole. “I believe that the leadership team has been extremely agile with the changing environment, managed their teams very well, and ensured customer connect very well,” noted a respondent from 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.”

Technology & Innovation – Promoting Collaboration, Communication & Driving Efficiency

Which Digital Solutions Does Your Board Use?

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 as a means 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.



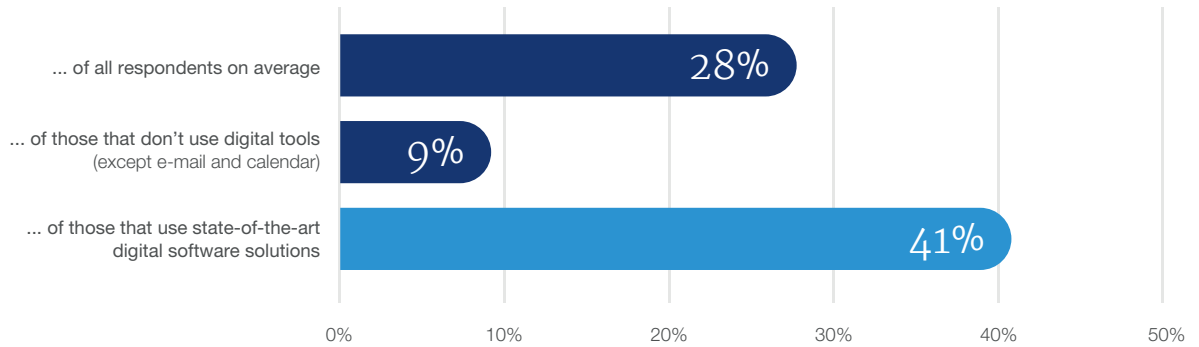
Surprisingly, just over a quarter of companies surveyed confirmed their boards utilize digital services for board and collaboration software. However, half reported leveraging some sort of document sharing software. Therefore, a positive correlation may exist between companies that leverage board solutions 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.

Digital Board And Collaboration Software 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.

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



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.

The survey results point to talent, innovation, diversity, and preparedness as being key drivers of board effectiveness. Byron Loflin, Head of Board Engagement at Nasdaq, notes that "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."

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.

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 a recent blog post about how boards can prepare for the aftermath of this crisis, Stanton Chase Dubai Managing Partner Panos Manolopoulos 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 at all times.

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 the following:

- » 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-driven leadership and vision
- » Purpose-driven strategy
- » Alignment of boards and executive teams

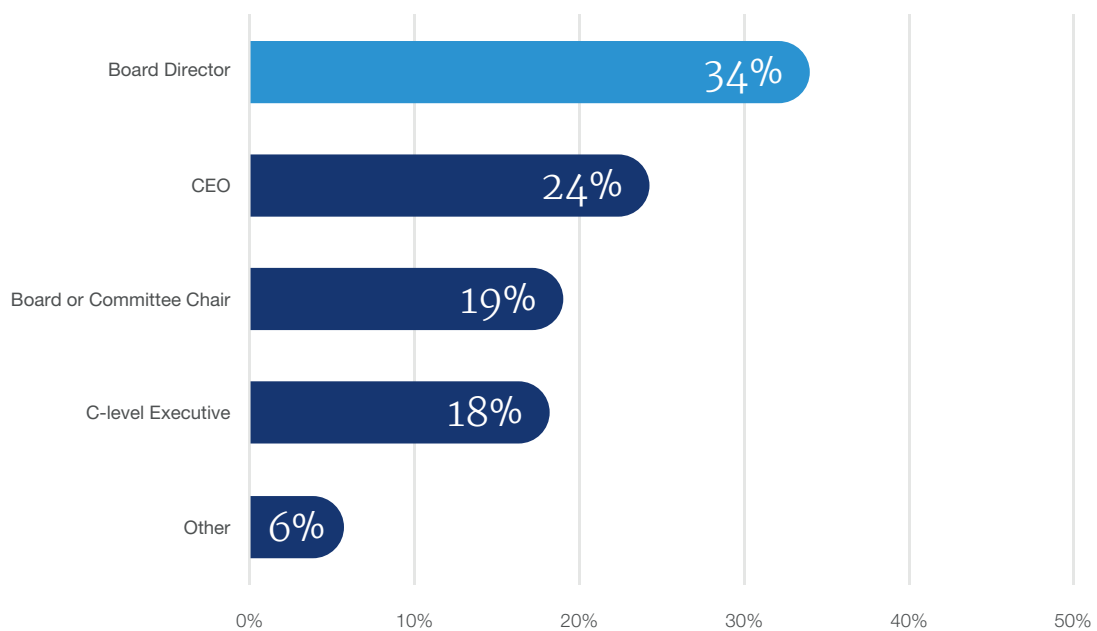
An integrated approach to corporate governance is the essence of long-term, value-oriented capitalism and the vast opportunities that stakeholder capitalism offers. It is what is required to give practical effect to the vision and principles articulated in the World Economic Forum's 2020 manifesto, "The Universal Purpose of a Company in the Fourth Industrial Revolution," and the U.S. Business Roundtable's revised "Statement on the Purpose of a Corporation," as well as a growing number of aligned regulatory and voluntary frameworks around the world.

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

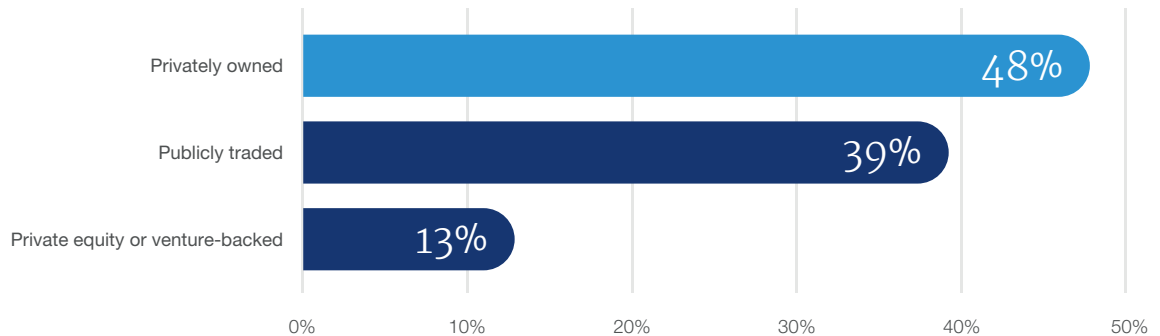
Among the total of 269 executives who responded to our survey, more than one-third (34%) were Board Directors. Approximately one-quarter (24%) were CEOs, 19% were Board or Committee Chairs, and 18% were C-level Executives (not CEOs).

Survey Participants' Roles



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.

Company Form



Authors



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About Stanton Chase

Founded in 1990, Stanton Chase is your global leadership partner, recognized for exceptional results around the world. Stanton Chase is unique in the executive search industry, offering clients the expertise and global reach of one of the world's ten largest executive search firms complemented by the service, industry expertise and personal relationships usually reserved for small, boutique practices.

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About Nasdaq Boardvantage

Nasdaq Boardvantage is a board portal solution with an intuitive interface and robust security features allowing boards and leadership teams with work together more efficiently, productively, and strategically through meeting management, improved document management, easy collaboration between members, enhanced e-governance, and added security. From nonprofits and hospitals to asset managers, banks, and insurance companies, Nasdaq Boardvantage can help every company that has a Board of Directors.

Stanton Chase, Nasdaq Alliance Strengthens Board Services For Clients Worldwide

Stanton Chase and Nasdaq Boardvantage are pleased to have partnered since 2019. This collaboration brings together Nasdaq Boardvantage's award-winning software solutions with Stanton Chase's expertise in executive search, adding more value to an already extensive offering of corporate governance and board leadership services.

Clients will benefit from a combination of executive search and leadership services with best-practice tools for effective board performance and insights on current issues and trends in the industry.

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