
The Role of the Board in Times of Distress



By Jaap Winter and Erik van de Loo , INSEAD

If companies are to survive the coronavirus, corporate boards need to exercise collaborative, proactive leadership.

The COVID-19 pandemic is wreaking havoc on humanity at an unprecedented scale. Draconian measures governments are imposing in an attempt to “flatten the curve” have triggered a swift and massive economic crisis. Businesses must constantly adapt to the fast-evolving situation and plan accordingly. Most of the crisis management will be carried out by executives, but since many decisions concern the very survival of companies, the board as a whole has to be involved in deliberations rapidly and intensively if non-executives are to have any meaningful role.

Business continuity

Besides immediate concerns over employees’ health, the primary priority of businesses during the fierce downturn is continuity. This requires, first of all, that companies safeguard their employees, facilities and assets; determine how and to what extent work can continue; and find ways to manage and mitigate the risks of operating amid great uncertainty.

Companies also need to look forward. They must think of how to sustain the business over the months that the lockdown is anticipated to continue, and also plan for the aftermath. Much will depend on how long the lockdown lasts and how fast the recovery will be. For many companies, managing for cash will replace managing for profit.

Boards need to decide on two important issues. The first pertains to resources. How much built-up financial resources that would have gone into investment, innovation and strengthening of the business should be used to deal with the crisis and keep the organisation intact as much as possible? The higher the amount, the more future plans will have to be delayed; otherwise, more cost-cutting will have to take place now.

The second, related issue is about stakeholders. How should the board balance the interests of various stakeholders? Do we keep most staff on the payroll or do we dismiss them to minimise losses? Do we pay a dividend to shareholders or do we suspend it to avoid more radical cost-cutting? Do we shore up the company's finances or do we also help others in the company's ecosystem?

Collaborative leadership

Corporate law typically offers little guidance on how to make these judgement calls. The norms that guide behaviour of boards leave wide discretion to directors.

In jurisdictions that lean towards shareholder primacy, boards typically have considerable latitude to take measures that safeguard business continuity. Jurisdictions that lean towards stakeholders typically do not prescribe any outcome of the balancing act. A clear red line in most jurisdictions is what is known as wrongful trading: Directors who keep the business going even though they know or should know that the company can no longer pay its debts can be held personally liable. Above this line, the board has the discretion to balance various interests. Whatever the directors decide therefore depends on their personal and collective moral compass.

Even as executive and non-executive members of the board exercise collaborative leadership, there are distinct roles for each. Non-executives must challenge executives' assumptions, which can remain unquestioned in the tumult of crisis management even if they underpin critical decisions. This would prevent decisions from being made as a result of herd mentality or

without due consideration of options. The board as a whole should also take into account **public expectations it has created** of the company's societal responsibilities. They matter, especially now.

Emotional containment

The non-stop news cycle and pervasive social media could trigger intense and confused collective emotions, which could, in turn, result in panic and impulsive reactions, even on corporate boards. A primary task of non-executive board members is to help ensure that decisions and actions are purposeful and well considered. To do so, they need to provide *containment*: a psychological safe space in which **executives can share their doubts, insecurities, anger, anxiety and sadness**.

In practical terms, this would involve non-executives proactively checking in emotionally with executives. **Research** and practice show that emotional support from the very top is crucial for executives to cope with stress effectively. After all, executives' foremost objective now is to stabilise and control the situation as soon as possible. Their focus is external and often overwhelmingly operational and technical, at the expense of their own emotional wellbeing. Persistent stress may lead to exhaustion and even breakdowns, physical or mental.

That is why boards should introduce a military-style *buddy system*: each person monitors and ensures the wellbeing of one of her or his colleagues. It is often easier to detect signs of stress in others than in yourself.

The same care should apply to non-executive directors. We know of boards that offer all members individual coaching during these very challenging times. As the airplane safety message goes, *put on your own oxygen mask before helping others*. Some executives might need professional psychological support; some might be a good executive but **not fit to guide the company through the crisis**. Supporting executives and assessing their **effectiveness in handling the crisis** is another task and responsibility of non-executive board members.

In conclusion, distress of the kind we are grappling with requires that the entire board, especially non-executives, be closely involved in managing the business to ensure sound decision making as well as emotional containment. Getting those two aspects right will be key to surviving the crisis.

Find article at

<https://knowledge.insead.edu/leadership-organisations/role-board-times-distress>

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Covid-19 is no longer a global health emergency but its impact on public health, the global economy and the future of work cannot be overstated. INSEAD's thought leaders — both faculty and their close collaborators in the practitioner and entrepreneurship communities — give their informed perspectives that could help us not just weather the crisis but emerge from it stronger than ever.