

Board Leadership in Times of Crisis

A digital gathering with Board Members from major companies in Mexico

Egon Zehnder gathered 45 top executives who serve on the Boards of some of the most important companies in Mexico for a virtual meeting on April 24, 2020. Ashley Summerfield, Egon Zehnder's Head of our Global Board Practice, facilitated a discussion to share learnings and points of view in the wake of the COVID-19 crisis and beyond. The attendees found important differences between the choices Boards need to make in the tactical/short term versus the more strategic/long term decisions that their companies and stakeholders will demand.

Short-Term Priorities

The first part of the discussion centred on the urgent, short-term decisions that Boards need to make in the wake of this unprecedented global crisis. In terms of society, issues to consider include the potential re-deployment of production, dedicating more time and resources to charitable activities, and the ethical and moral implications of preserving jobs and avoiding salary reductions to the extent possible.

Attendees agreed that for employees, short-term priorities remain around health and safety, motivation to maintain productivity, and a positive attitude. They also agreed that the Board should uphold a supporting role, not interfering with day-to-day activities carried out by the CEO and the Executive Committee.

Companies talk about being agile and empathetic with employees. For example, children are being home-schooled, so demonstrating an understanding of people balancing work and children at home is paramount.

Ensuring adequate liquidity levels is also a short-term priority for the Board. Participants concurred that fast decisions are required regarding dividend policy in order to provide room for financial and operational flexibility and continuity. Emphasis was also made on maintaining empathy and respecting the company's culture and values at all costs.

One of the most important considerations is to try to use this time to enhance the standing of the company in society. "People will remember how you behaved in the crisis", one participant commented. For example, Louis Vuitton redeploying its production to make hand sanitizer; Inditex making hospital gowns; Chelsea Football

reserving thousands of hotel rooms for medical personnel so they can stay after a long day and protect their family members from potential further transmission of the virus. Some financial institutions are flexing mortgage payments and postponing interest payments in personal loans. Supermarkets are opening earlier to dedicate specific slots for the most vulnerable and the elderly.

Strategic, Long-Term Concerns

Some of the most important considerations discussed included how the company will be viewed by society going forward (branding), and how to maintain the trust established with governments. For employees, Board thoughts will revolve around retention, potential changes to performance management, and the resilience to rebuild.

The way the Boards meet and discuss is also likely to change: less travelling, more use of virtual meetings, redefining the length and cadence of meetings, along with communication dynamics between gatherings.

There was a lively discussion around appointing a sub-section of the Board to think exclusively of the future. Some companies are appointing a group of senior executives to take over this commission and prepare for the return to work and eventual rebound of activities after the lockdown. These teams are typically independent from the executive team that is handling the daily crisis. Having a playbook ready when this is over is of the utmost importance to ensure the continuity of businesses.

Mexican global companies are receiving differentiated levels of government support in the geographies they operate. England or the United States, for instance, are ready to assist, while Mexico is having close to zero aid. The question posed by some Board members was, “is it unfair to treat employees differently in the different geographies?” “The government support systems are dissimilar in the different countries, what is the best way to deal with these different criteria?” The discussion turned to company values on this subject. Advice was to stick to the true values of your company. If the values are that all employees are equally valuable, then the company has to subsidize where there is no money available from authorities. This is a decision the Board should be discussing.

Wartime Versus Fair-weather Leaders

It is highly possible for the Board to discover that they do not have the right CEO to navigate these unprecedented waters. This lockdown is amplifying the good and the bad. Some companies are realizing they do not have the right CEO to manage a crisis. Nevertheless, it is risky to make C-level changes in the middle of a crisis like this, but reshuffling management responsibilities (e.g. appointing a strong COO or give more responsibilities to the CFO) could be a good strategic option to support the CEO and enhance the C-level team.

However, if the Board is convinced about making a CEO change, it is better to engage in a CEO succession process soon. Particularly if you are looking at 2 to 3 difficult years, which is too long to have a short term bridging arrangement. If hiring an external CEO in the midst of a crisis might prove to be too risky, then it is better to have a process to consider someone internal who has surprised the Board by doing extraordinary things in dealing with challenges under pressure, including the followership that the executive has earned. A bridging arrangement could be good for 3-4 months, but for years, it is more advisable to face the situation and make the change.

Communication and the Role of Committees

Speaking of maintaining good communications between the Board and employees, we are at a point where there is no clear picture. The challenge is how to deal with having enough and efficient communications while dealing with uncertainty.

While deception is never an option when communicating, it is important to show strength through vulnerability. The more vulnerable you show up in times of crisis, the more it can be seen as a sign of strength, openness, and truthfulness. Vulnerability is not seen as showing incompetence; rather, it is always better to say “I do not know” and revert to showing different possible scenarios, not pretending to have a crystal ball. Let the Executive Committee and employees know that you don’t know, but you will always try your best and stick to company principles.

There is more work to be done in regards to delegation of responsibility from Board to Committees in troubling times. These Committees will need to invest more time on details of the fundamentals of the business than in calmer times, and will get busier than ever before. For example, the Audit Committee will see its levels of responsibility increase and will have to call on best practices (e.g. if you are letting go employees and/or receiving support money from governments, it may not be advisable to pay bonuses to executives this year).

Opinions were voiced about the creation of a Crisis Committee. It was deemed better to have the right CEO and the right executive team operating through the crisis than forming a Crisis Committee. To such end, the entire Board should constitute itself as the Crisis Committee. It is key to have the Chairman and the CEO in close contact, and have the Chair communicate back to the Board. The CEO needs to focus on operating through the crisis, not on reporting to an additional committee or several non-executive directors.

Cybersecurity has also been high on the Boards’ agenda. The Board has the responsibility to manage this important risk and needs to get deeply involved in this topic as cyberattacks have increased dramatically during the pandemic. Boards need to advise CEOs to have the right CTO in place, and hire the right external expertise as needed. Having the right CTO will significantly lower risks to the corporation at this time.

Scenario Planning

The degree to which different industries will be affected varies greatly by sector. The services sector, for instance (travel, hospitality, movie theatres, etc.) are going to face especially difficult times. Some specific industries will face high levels of consolidation after the crisis while some others will tend to disappear. Forecasting the future is evidently impossible, as there is too much volatility, hence the development of scenarios is advisable. The expectation is that businesses will see their results dropping by 20, 40, or even 60 percent during the quarantine period. For some businesses, the drop in activity already experienced has been as high as 90 percent. Based on the above, it will be paramount for the Board to request from the management team different financial scenarios that would allow for proper strategic planning as the business turns around. That way, by monitoring how the business is evolving relative to the different scenarios, the CEO and Executive Committee will have a solid reference to support important decision making on a daily basis.

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Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

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