Navigating the pandemic: A board lens

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KPMG Board Leadership Center

The speed and breadth of the unfolding COVID-19 crisis—dramatically impacting lives and healthcare systems, disrupting business operations and supply chains, slowing markets, and now posing the risk of a global recession—is putting nearly every facet of business to the test. Not since the financial crisis of 2008–2009 have crisis response plans, business continuity and resilience, cash flow, scenario planning, and corporate leadership come under such intense pressure.

Navigating the uncertainty requires a sharp focus on people, liquidity, operational risks, and contingencies while keeping sight of the bigger picture—strategy, risk, and resilience. With information changing daily (even hourly), companies should expect to recalibrate their responses—and potentially reframe their thinking about how the COVID-19 crisis is impacting the business—as conditions change.

To help boards in their oversight of the company's pandemic response—managing through the immediate crisis as well as addressing vulnerabilities exposed by the outbreak—we highlight five key areas for board focus:

- **First and foremost, focus on the safety and well-being of the company's employees.**
- **Focus on financial risks and scenario planning—duration, severity, and longer-term dislocations.**
- **Understand key operational risks—particularly the supply chain, labor, and technology capabilities, and related scenario planning to maintain operations.**
- **Ensure the board is staying apprised of the company's response to the crisis.**
- **Assess financial reporting and disclosure impacts.**

Based on our conversations with directors, KPMG LLP subject matter professionals, and others on the front lines of the crisis, these five areas are critical today and in the medium term.

First and foremost, focus on the safety and well-being of the company's employees.

The initial focus on a company's people and operations in China, Italy, South Korea, and other COVID-19 hot spots is quickly going global, with Europe, the U.K., and now the U.S. seeing spikes in coronavirus cases. The focus on employee well-being, therefore, should now be proactive, international, and company-wide.

What policies are in place to protect and support employees (e.g., hygiene programs, restrictions on travel and congregation, flexible and remote work policies, healthcare)?

- How frequently do we reassess these policies as the crisis evolves and based on guidance from the CDC and other medical experts?
- What are the plans to minimize transmission in the workplace? Are there high-risk facilities where transmission of the virus would be more likely?

Do we communicate these policies—and provide timely updates—clearly and frequently to employees?

- Is there confusion about the policies? Have we addressed employee needs? What resources are available to minimize stress and concern—e.g., childcare or covering costs related to coronavirus testing or treatment?

- How are we maintaining employee morale and corporate culture—including addressing concerns about job security as the company weathers the crisis?
- Recent surveys indicate that employees want to hear from the CEO/top management at least once a day, if not twice, and that employees have greater confidence in the COVID-19-related information they receive from management than in media reports.[1]

In addition to employees, does the company understand how its other key stakeholders are being impacted by the COVID-19 crisis?

- How are the company's customers, suppliers, and communities being impacted by the crisis, and how is the company supporting those stakeholders?
- Is the company communicating proactively with its customers and the broader marketplace about the company's response to the COVID-19 crisis?
- Is the company actively demonstrating corporate purpose—i.e., being part of the broader response?

Focus on financial risks and scenario planning—duration, severity, and longer-term dislocations.

Lessons learned from the 2008 financial crisis—marked by turmoil in world markets, shortages of cash and liquidity, tremendous volatility and uncertainty, and the prospect of a prolonged recession—can provide a basis for boards to consider near- and longer-term financial risks posed by the coronavirus crisis. Among the lessons learned:

Given the uncertainty regarding the economic impact of the coronavirus crisis, scenario planning is essential.

- What scenario planning is the company doing around a global pandemic and a possible recession?
- Are there second-order effects that will impact the company's industry, supply chain, sales, and distribution channels? Are there key businesses that might be deemed nonessential and forced to close?
- Does management prepare a set of probability scenarios for how the future might unfold and consider the risks that those scenarios present? Do the strategic options balance a commitment to a course of action with the flexibility to adjust amid different future scenarios?

Understand the array of financial risks to the business and how management is addressing these risks under different scenarios.

- **Liquidity, access to capital, cash flow.** What are the company's plans to raise debt/equity in the short and medium term? How dependent is the company on short-term financing? Are credit lines secure? Is the company at risk of default on debt covenants?
- **Hedging against commodity, currency, interest rate fluctuations.** How is the coronavirus crisis impacting commodity costs and procurement strategies? How will changes impact the ability to obtain economic hedges against commodity, currency, and interest rate fluctuations?
- **Exposure to third parties.** Does the company understand its exposure to third parties who may experience financial difficulty (customers, suppliers, lenders, and others)? Are trade receivables a concern?
- **Threat of a deep recession.** What restructuring is the company considering? What capital expenditures (or hiring) should be deferred?

Focus on fair value and possible asset impairments that may pose significant risks for the company.

- **Investments.** Have we inventoried the company's investments in debt and equity securities to identify declines in value or impairments that should be reflected in the financials?
- **Goodwill and intangibles.** Have we identified triggering events that may warrant impairment assessments of goodwill and other intangibles? If so, are fair values determined by management/valuation experts realistic in light of current market conditions?
- **Pensions.** How have changes in financial markets impacted the valuation of pension plan assets and funding requirements?

[1] David A. Wemer, "Addressing the coronavirus 'infodemic,'" Atlantic Council, March 16, 2020.

Understand key operational risks—particularly the supply chain, labor, and technology capabilities, and related scenario planning to maintain operations.

Supply chain disruption is being felt across most industries, with a majority of Fortune 1000 companies experiencing some level of disruption.[2] The problem has quickly become global, and the complexity has made it challenging to model and evaluate the range of impacts and alternatives. Likewise, the impact of the crisis on workers and the workplace—particularly directives for social distancing and the resulting closures of offices, schools, and local businesses—along with the demands on technology systems to support remote working may pose significant operational challenges for the company.

Supply chain

What measures are being taken to stabilize the company's supply chain?

— Is the company planning for material shortages of supplies that are routed from logistical hubs in impacted areas as well as labor concerns due to quarantine procedures or illness?

— Are alternate suppliers being identified for short-term sourcing in case an alternate supply is needed?

— Is the company supporting key suppliers—e.g., with working capital infusion, loans, etc.—to help them weather the crisis and remain viable?

— What is the status and duration of the company's inventory? Are there safety stockpiles to provide a buffer and mitigate the risk of shortfalls in products or materials?

Business continuity

Is the board confident in the company's business continuity plans?

— What if a key executive becomes ill?

— Should we modify role descriptions, performance objectives, and/or organization structure?

— What are the implications of employees working remotely?

— Will layoffs or furloughs become necessary?

— How will travel restrictions, social distancing practices, and employees' personal circumstances impact staffing and key activities?

— Is the company experiencing or anticipating any significant drops in production or delivery of services as a result of the inability of employees to work on-site or remotely?

Technology

Are the company's technology capabilities able to support a significant increase in remote working and virtual operations?

— Do employees have the technology, information, and access they need to work and collaborate remotely? Has a technology help line been established to support users—and are protocols established to prioritize access during peak demand?

— Have employees been alerted to potential scams/phishing emails attempting to take advantage of the COVID-19 crisis to access systems and personal information?

[2] Elliot Smith, "Coronavirus could impact 5 million companies worldwide, new research shows," CNBC.com, February 17, 2020.

Ensure the board is staying apprised of the company's response to the crisis.

Given the fast and fluid pace of the crisis, the directors and business leaders we spoke with all emphasized the critical importance of frequent management updates to the board. As directors noted in our recent white paper, the board's role in a crisis is to stay informed and oversee management's response, but "without getting in the way. Let management do its job and expect them to keep the board informed. But stay on top of the crisis until you reach the landing point."[3]

Understand the scope of the crisis and how management is responding.

— Have we determined the scope of the crisis? Are the board and management of the same mind as to what's being done?

— Is it clear who is on point for key elements of the response—internal and external communications, operations and human resources, financial implications, etc.?

— Are there benchmarks and checks on progress as crisis management and mitigation efforts go forward?

— In addition to internal reporting, is the board seeing the company's internal communications to employees as well as external communications to customers and the broader marketplace?

Consider the potential impact of the COVID-19 crisis on the board's operations and effectiveness.

— Does the board have contingency plans in place to meet virtually as needed?

— Does the lead director/independent chair need to step in to help ensure the efficiency of board/management communications and reporting?

— Are board members—and the CEO and senior management—taking precautions to limit their own exposure to the coronavirus?

Assess financial reporting and disclosure impacts

Most companies with fiscal years ending December 31 have filed their 2019 annual reports, but not all. These delayed filers and companies on fiscal years other than December 31 (particularly retailers who typically are on a January 31 fiscal year) are likely to file in the final weeks of the reporting cycle and, therefore, will need to consider the ramifications of the coronavirus in their annual reports.

Those companies fortunate enough to have already filed their 2019 annual reports are nearly through the first quarterly operating periods. As they prepare their quarterly reports over the next few weeks, they will need to assess the financial reporting impacts of the coronavirus crisis in the quarter as well as the need for enhanced disclosures.

Periodic disclosures

The SEC has issued public statements calling on companies to monitor the necessity for disclosures regarding the current and potential effects of coronavirus—e.g., risk factors, MD&A, liquidity, results of operations, and known trends and uncertainties—as well as the adequacy of the company's disclosure controls and procedures in the reporting of this information. Among the potential areas of business risk disclosures to consider:

— **Customer demand.** Is the company experiencing (or expecting) any changes in demand from China-based customers or products made in China (or other affected areas)? How sensitive is demand and pricing to exchange rates and/or commodity indices (e.g., volatility of crude oil prices)?

— **Supply chain.** Is the company experiencing (or expecting) supply chain impacts such as shortages related to the import/export of machinery, components, or raw materials? Is the company making new arrangements to purchase goods from sources outside of the affected areas? Will there be significant costs or other risks associated with those alternative arrangements? Is the company experiencing (or expecting) issues with the flow of goods and trade due to travel restrictions, canceled passenger and cargo shipments by airlines, or border closings?

— **Products and services.** Are there risks of production delays for products manufactured in affected areas? Is the company experiencing plant or office closures? Does the company anticipate product shortages? Is the company impacted by rent concessions or abatements associated with office and/or retail closings?

— **People.** Is the company experiencing staffing shortages due to quarantines? Does the company have a large workforce in China or other affected locations? Are there employee compensation matters that will result in material costs?

[3] "Crisis prevention and readiness: Lead director insights," KPMG Board Leadership Center, September 2019.

— **Markets.** To what extent does the company have exposure to the global economy? Is the company exposed to volatility in commodities markets impacted by current events?

Accounting and financial reporting impacts

Companies should consider whether economic uncertainties and market volatility have or will affect accounting conclusions, including:

— **Key assumptions and sensitivities.** Reevaluate as necessary to reflect current economic conditions and uncertainties.

— **Strategies and policies to manage risk.** Have these been adequately updated and disclosed if there have been changes?

— **Adequacy of disclosures.** Consider disclosures for potential inventory write-downs and impairment losses, loan defaults or covenant breaches, credit risk from Chinese customers or others negatively impacted by these events, insurance recoveries, changes in the business or economic circumstances that affect the fair value of the company's financial and nonfinancial assets and liabilities, and changes in Chinese growth forecasts that may impact impairment evaluations (e.g., goodwill, other intangible assets).

Subsequent events (ASC 855)

Companies should evaluate whether events occurring after the balance sheet date require disclosure or possibly recognition. For December 31, 2019, filings, the financial reporting impacts of the coronavirus in the U.S. were likely limited to nonrecognized subsequent events that were required to be disclosed. For later filings (e.g., March 31, 2020), any accounting impacts will likely be recognized.

ICFR

Companies with significant international operations or business transactions may consider whether there is any effect on internal control over financial reporting. For example, new controls may be implemented and/or modified as companies start to implement emergency procedures, modify IT access to enable remote workforces, or account for unanticipated significant unusual events (e.g., accounting for insurance recoveries related to business interruption). Disclosure of material changes in ICFR would be required.

Regulatory relief

On March 4, the SEC issued an **order** extending filing deadlines for companies operating or located in regions affected by coronavirus. The relief applies to filing deadlines between March 1 and April 30, and companies relying on the relief are required to furnish Form 8-K (or 6-K) by the later of March 16 or the original reporting deadline, and disclose certain required information. Filing deadlines for any report, schedule, or form are extended 45 days from the original due date.

Additional resources

— Financial reporting impacts of coronavirus—KPMG LLP, March 2020

— Pandemic planning as part of an overall resilience strategy—KPMG LLP, March 2020

— Crisis prevention and readiness: Lead director insights—KPMG Board Leadership Center, September 2019

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