

# COVID REFLECTIONS ON CORPORATE GOVERNANCE

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## Abstract

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The COVID-19 global pandemic has created unique and far-reaching impacts on corporations. Given the essential oversight role of boards of directors, it becomes critical for them to develop strategies as their companies respond to the challenges and risks under these unprecedented circumstances. This paper applies corporate governance principles and action plans for boards to help their companies survive this crisis and build sound business prospects both in the short run and long run. For immediate company survival, this paper encourages boards of directors to focus on short-term liquidity and employ five principles for COVID cash management as proposed in Gifford (2020), including detailed forecasting, setting spending priorities, initiating early communication, shortening reporting cycles, and planning for low cashpoints. Since liquidity does not equate to solvency for company survival, boards of directors also need to focus on long-term solvency by monitoring the new normal of business strategies, including the high likelihood of insolvency among small businesses and mixed solvency situations among large corporation. In addition, this paper identifies the key opportunities for the boards of directors to exploit and strengthen corporate governance during this pandemic period, including advocating a COVID disaster recovery plan with best practices, developing an emergency response checklist, establishing efficient disaster responses, and bolstering monitoring mechanisms for employees, operations, finances, customers, and supply chains (Butcher, 2020). The major sections of this paper are current COVID reflections, a case study of the Hertz Corporation, future COVID reflections, business strategies for the new normal, COVID cash management principles, COVID threats to corporate governance, COVID opportunities for corporate governance, and conclusions.

**Keywords:** COVID Pandemic, Business Strategies, Corporate Governance

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## 1. INTRODUCTION

The worldwide COVID-19 pandemic has impacted companies, countries, and the global economy. It has locked down societies, changed communities, and severely impacted economies. For example, the U.S. unemployment rate jumped to 14.7% in April 2020 which represented 20.5 million jobs lost and a dramatic increase from the rate of 4.4% in March

2020. This rate of 14.7% set a record for the post-World War II era, the previous high being 10.8% in 1982. By July 2020, the U.S. unemployment rate had decreased to 10.2% which still represented over 16 million jobs lost. The U.S. gross domestic product (GDP) fell at a 4.8% annual rate in the first quarter of 2020 and 9.5% in the second quarter, which was the equivalent of a 32.9% annual rate. The economic contraction in the second quarter of 2020 set

a record and wiped out 5 years of economic growth (Berger, 2020; Casselman, 2020).

The European Commission's quarterly forecast projected that the European economy would shrink by 7.4% in 2020 with the unemployment rate averaging 9%. Maarten Verwey, the head of the European Commission's economic unit, warned that the COVID pandemic may bring the deepest European economic recession in its history and that a resurgence of COVID after the end of lockdowns would reduce a further 3% off the 2020 European economic performance. The European Union and the U.S. are each other's largest trading partners, exchanging goods and services worth \$1.3 trillion in 2019 (Stavis-Gridneff & Ewing, 2020). A paradigm shift may be occurring. As the COVID pandemic unfolds, dominant beliefs about how the world works can no longer explain what is happening (Goldberg, 2020).

Concerning a possible paradigm shift for financial reporting, there is a risk to earnings quality during any crisis. A financial analyst, Ben Laidler, commented that the coronavirus is infecting accounting statements and gave the example of a German industrial company, Schenck Process, which in its 2020 first-quarter financial statements, included a new term, "EBITDAC", "EBITDA adjusted for effects from COVID-19 crisis", which increased its quarterly profit by 5.4 million euros from eliminating COVID effects (Sorkin, 2020e). Additional companies may take the COVID pandemic as an opportunity to report and hide large, one-time, non-cash write-offs or losses from bad business decisions, such as unprofitable mergers, obsolete product lines, or poor investments, in this new income statement line item claimed to factor in the COVID-19 crisis effects. This reporting maneuvering may cause overarching domino effects on companies' financials and exert detrimental influences on their survival. Hence, boards of directors need to pay close attention to such potential COVID financial reporting abuses. They can assess such shenanigans by using the quality of earnings ratio (operating cash flows divided by net income) since non-cash losses will cause net income to fall faster than operating cash flows when companies hide such big non-cash losses in this new COVID income statement category (Sorkin, 2020e).

The major research question in this paper is to understand how the COVID pandemic impacts business operations along with implications and reflections for corporate governance practices. This paper analyzes the theoretical and empirical impacts of COVID on corporate governance and sustainability, including board of directors' practices and business-society relationships, especially with the emerging emphasis on stakeholders, not just shareholders.

The structure of this paper is as follows. Section 2 presents current COVID reflections, Section 3 analyzes a case study of the Hertz Corporation, Section 4 introduces future COVID reflections, Section 5 offers business strategies for the new normal. Section 6 investigates COVID cash management principles, Section 7 deals with COVID threats to corporate governance. In Section 8, COVID opportunities for corporate governance are presented. Finally, Section 9 conclusions.

## 2. CURRENT COVID REFLECTIONS

This section summarizes the weaknesses of the current corporate governance system in the U.S. highlighted by the COVID pandemic. It is based on an essay by Leo Strine, perhaps the most influential judge in corporate America over the past decade (Sorkin, 2020a). Before retiring in 2019, Strine was the chief justice of the Delaware Supreme Court, which oversees more U.S. businesses than any other U.S. state because an overwhelming number of companies are incorporated in Delaware.

Strine raised many significant issues and questions for the current corporate governance system in the U.S. Why do the wealthiest U.S. institutions appear to manage their balance sheets less prudently than many middle-class Americans? Many U.S. businesses do not have sufficient cash reserves to pay next month's expenses after less than a month of COVID slowdown and, consequently, have furloughed or fired thousands of workers. Families are encouraged to put aside a cash reserve to pay their mortgages and bills and to feed themselves in case of an emergency. A typical financial planning strategy is to have six months or one year of cash set aside to survive a family financial crisis. Why don't corporations do the same? Are investors well served by executive management and board of directors' practices that have encouraged many sectors of the U.S. economy to run their businesses on fumes?

After a 10-year U.S. economic expansion that led to record increases in earnings, plus huge corporate income tax relief, American corporations should have substantial cash reserves to sustain them during a short period without significant revenue and cash flows. However, many did not, instead were highly leveraged, lacked adequate cash reserves to operate normally, and had to be bailed out once again by the U.S. government, just like the bank bailout during the financial crisis of 2008. What happened to all that cash? As encouraged by activist investors, such as hedge funds and private equity funds, much of this cash was returned to shareholders in dividends and stock buybacks, which kept the companies' stock prices high, which facilitated corporate management compensation, as well as board members compensation, through stock options and awards. What role did the boards of directors and their compensation committees play? Were they just self-serving?

Concurrently, American corporations have weakened the traditional gainsharing between the workforce and shareholders that characterized the post-World War II era. Then, when corporate profits went up, workers shared equitably in the gains. Not anymore! The U.S. executive management and corporate governance systems must accept substantial responsibility for this current bias against workers in favor of shareholders. Managers make corporate policies with a single goal to maximize shareholder returns. The interests of stakeholders, including workers, creditors, and suppliers, are largely set aside. In addition, powerful institutional investors, both active and passive ones, often have a short-term focus as they pressure companies to "make the numbers" in terms of quarterly revenues and earnings to keep their stock prices up (Grove & Clouse, 2019; Grove, Clouse, &

King, 2020). Accordingly, these investors have also pressured companies to reduce workers' paychecks, especially with the diminished legal protections for workers seeking to unionize. They have pressured companies to accept more debt, especially with private equity firms doing highly leveraged company acquisitions, using the typical investment strategy of greater risk means greater returns. In this current COVID crisis, why are American workers and taxpayers, not these institutional investors and top executive managers, bearing the brunt of the harm? Again, where was a strong, reasonable corporate governance system, not the current weak one that lacks focus on financial soundness, sustainable wealth creation, or fair treatment of workers?

Consequently, according to the Congressional Budget Office, the U.S. federal government has spent more than \$4 trillion in 2020 to keep the U.S. economy afloat. It is more important than ever to understand the connection between poor policy choices and weak corporate governance and the reasons for yet another enormous corporate bailout. A new 21st-century focus is needed to rebalance the U.S. corporate governance system to deliver economic security for all citizens and stakeholders, not just shareholders and the wealthy. Regulatory governmental action is needed to encourage corporations and institutional investors to make the best interests of American workers, consumers, communities, and the environment, an ultimate goal of corporate governance. Serving all these stakeholders is more important than just serving only shareholders (Sorkin, 2020a).

Restoring the fairness of the U.S. economic system also requires investments in infrastructure, innovation, scientific research, and worker training to meet the current and ongoing COVID pandemic and global warming/climate change threats to economic and health systems. How to pay for all these items? These essential investments can be paid for by progressive tax approaches, like a financial transaction tax, a graduated capital gains tax, and an end to tax loopholes, like capital gains tax rates, instead of higher ordinary income tax rates, for the wealthy operators and investors in the hedge and private equity funds. Answers to all these questions are integral to corporate governance reform because they encourage sustainable investing and put a damper on imprudent speculation. Also, restoring a fair opportunity for American workers to unionize, and increasing worker voice and leverage, like seats on the boards of directors, as required by many European countries, in socially important businesses will help ensure that American capitalism delivers for all, not just the wealthy (Sorkin, 2020a).

### 3. A CASE STUDY OF HERTZ CORPORATION

In this section, we closely examine the impact of the COVID pandemic on Hertz Corporation (hereinafter to be referred to as Hertz), now an ultra "zombie" company, with a focus on the devastating effects of high leverage and the importance of a sound corporate governance system. Hertz filed for bankruptcy on May 22, 2020, with \$25.8 billion in assets and \$24.4 billion in debt with just \$1 billion in cash. Its CEO resigned one week earlier, and Hertz has had five CEOs in the last six years. Hertz paid \$16 million in bonuses to 342 executives

several days before filing for bankruptcy protection and just weeks after cutting thousands of employee jobs. It justified these bonuses as part of a plan to keep them in place while it attempts to reorganize. The newly promoted CEO received \$700,000 just three days after taking the CEO job. By paying bonuses before filing for bankruptcy, Hertz did not need bankruptcy court approval for all these bonuses (Hall, 2020).

Hertz's global revenue decreased 73% in April 2020, compared to one year ago. Of its 38,000 worldwide employees, Hertz has laid off or furloughed 20,000, 53% of its workforce. It started in 1918 with a dozen Model T Fords and now has 12,400 corporate and franchise localities worldwide. Fourteen (14) billion dollars of its \$24.4 billion debt is a securitized debt of asset-backed bonds, tied to financing purchases of its fleet of 667,000 vehicles which are then leased back in exchange for monthly payments. Sujeet Indap, Financial Times U.S. editor, said: "Hertz had become a bank that rents cars, leaving it few assets to borrow against and huge ongoing liabilities in this COVID crisis" (Chokshi, 2020b). Also, it has mismanaged its fleet of 667,000 vehicles, keeping cars too long and failing to buy enough sport utility vehicles to keep up with consumer tastes.

Hertz was acquired from Ford Motor Company by three private equity firms in 2015, using a typical strategy of a leveraged buyout (LBO) and then going public one year later. Seven (7) billion dollars of Hertz's debt was from these LBOs, and these private equity firms are now trying to dump this LBO debt back on banks in the bankruptcy proceedings. Currently, the largest investors in Hertz and Avis, Hertz's largest competitor, are the activist investor Carl Icahn with 39% of Hertz and a hedge fund, SRS Investment Management, with 23% of Avis. To reach a majority of shares in both companies, just include the passive investors, BlackRock and Vanguard, who own 12% of Hertz and 32% of Avis, respectively.

Avis does not buy cars outright like Hertz but uses repurchase agreements with automobile companies. Consequently, Avis has much less debt, \$15.4 billion versus Hertz's \$24.5 billion although it is similar in size with 2019 sales of \$9.2 billion versus Hertz's \$9.8 billion and \$23.6 billion in assets versus Hertz's \$25.8 billion. Although Avis has less cash of \$721 million versus Hertz's \$1 billion, Avis said it has access to enough cash to survive the year versus Hertz's current bankruptcy. Even though Avis has fewer employees, 30,000 versus Hertz's 38,000, and fewer locations, 5,500 versus Hertz's 12,400, it started cutting costs much sooner than Hertz (Chokshi, 2020b).

Wall Street investors have reacted to these strategic differences in Hertz and Avis accordingly. In the three months from mid-February 2020 to mid-May 2020 when COVID started to significantly impact businesses, Hertz lost \$2.5 billion (86%) of its \$2.9 billion market capitalization while Avis only lost \$2.3 billion (66%) of its \$3.5 billion market capitalization. The February stock prices were the peak prices over the last year for both companies as COVID really hit them hard in a very short time, as many businesses around the world.

The comparison of bankrupt Hertz with the ongoing survival of Avis is astounding and insightful. Why didn't Hertz's executives and board

of directors encourage financial prudence and promote the protection of not just its shareholders, but also its stakeholders, primarily employees, and creditors, who may receive nothing or very little out of Hertz's bankruptcy? Boards of directors should learn from the lesson of Hertz's collapse and shape their companies' corporate governance system to best serve both shareholders and stakeholders.

#### 4. FUTURE COVID REFLECTIONS

The New York Times' Opinion team has started a new project. "The America We Need", imagining how the U.S. can address the inequalities exposed by the coronavirus crisis and emerge more resilient than before. The opening editorial envisioned: "The crucible of a crisis provides the opportunity to forge a better society, but the COVID crisis itself does not do the work. Crises expose problems, but they do not supply alternatives, let alone political will. Change requires ideas and leadership. Nations often pass through the same kinds of crises repeatedly, either unable to imagine a different path or unwilling to walk it" (Sorkin, 2020a).

However, why should large U.S. corporations and their boards of directors change their current focus on optimizing stock price and executive compensation if, once again, the U.S. federal government and its taxpayers are bailing out their companies, \$4 trillion to date, versus the \$700 billion Troubled Asset Relief Program in 2008? Corporate governance lessons learned from the 2008 financial crisis need to be relearned for this COVID crisis. There were key, recurring structural factors or problems back then, and still today: all-powerful CEO (where the CEO is also the chairman of the board which creates Board independence issues), weak system of management control, focus on short term performance goals (and related executive compensation packages), weak code of ethics, and opaque disclosures. Such weak corporate governance factors were key contributors to both fraudulent financial reporting and excessive risk-taking which facilitated the 2008 financial crisis (Grove & Victoravich, 2012).

Hopefully, boards of directors can step up and improve corporate governance by focusing their companies on all stakeholders, not just their shareholders, as envisioned and consistent with the Business Roundtable (BR)'s a new focus on the Purpose of the Corporation. In August 2019, the BR, representing the most powerful CEOs in the U.S., issued a 300-word Statement on the Purpose of a Corporation. This Statement included signatures by 183 of the 192 current CEO members of the BR. Since 1978, BR has periodically issued Principles of Corporate Governance. Since 1997, each version of the document has endorsed principles of shareholder primacy, i.e., that corporations exist principally to serve shareholders. This new Statement supersedes previous statements and outlines a modern standard for corporate responsibility. It proclaims: "BR members share a fundamental commitment to all our stakeholders and commit to doing well by our customers, employees, suppliers, and local communities. Each of our stakeholders is essential and we commit to deliver value to all of them, for the future success of our companies, our communities, and our country" (Business Roundtable,

2019). Such a new focus on the Purpose of a Corporation and the responsibility of a public company will help increase the relevance and credibility of boards of directors and strengthen corporate governance.

#### 5. BUSINESS STRATEGIES FOR THE NEW NORMAL

Rita McGrath, a management professor at Columbia University, has written several books on business disruption. She has four observations from the COVID business disruption on the future of business strategy that boards of directors should be paying attention to and challenging management about the relevance of such evolving strategies (Amato, 2020):

##### 1. *The end of competitive advantage:*

She challenged the notion that companies could sustain a unique position or competitive advantage for many years, i.e., one of Warren Buffett's well-known long-term investment strategies of "building a moat around your business". Especially now with the COVID pandemic, companies that succeed early in the future will be the ones that could recognize early on where they want to go in the future and what lines of business they should focus on or abandon.

Before the COVID pandemic, company leaders' level of acceptance for the concept of transient, not enduring, competitive advantage fell into three buckets:

1) "*No, it doesn't apply to me*". This first group is basically in denial, but that group seems to be getting smaller and smaller.

2) "*Freaked out*". This second group is saying: "All the old rules don't apply. I don't know what the new rules are". Unfortunately, these people can become dysfunctional and start dashing off in all directions and doing all kinds of crazy things.

3) "*Proactive*". This third group almost is relieved to have a language to talk about this new world and to try to develop a set of principles for thinking more constructively about how to act.

Even Warren Buffett reacted to the business impact of COVID by recently selling all his investments in the four major U.S. airlines and large portions of his U.S. bank holdings in updating his "buy and hold forever" investment strategy. These Berkshire Hathaway investments have lost \$50 billion in 2020.

##### 2. *The new normal:*

The COVID effects will absolutely lead to changes at numerous businesses on numerous fronts. Already seen from the impact of COVID, current travel for in-person meetings is almost non-existent with the increased necessity and popularity of virtual online meetings. For example, based on Zoom's 2020 Q2 financial statement, its quarterly revenue was up 169% and its market cap has tripled in value to \$60 billion since the start of 2020. Working at home, especially due to stay-at-home orders, obviates the need for companies to build enough desks for every employee to work in the office all week. For example, the Halstead CEO said: "Looking forward, are people going to want to crowd into offices?" and the Barclays CEO said: "The notion of putting 7,000 people in a building may be a thing of the past" (Sorkin, 2020d).

Harvard and New York University researchers for the National Bureau of Economic Research released a study of 3.1 million workers at more than 21,000 companies across 16 cities in North America, Europe, and the Middle East. They compared employee behavior over two 8-week periods before and after COVID-19 lockdowns. They calculated that the workday lasted 48.5 minutes longer, the number of meetings and attendees increased 13% and 14%, respectively, and people sent an average of 1.4 more emails per day to their colleagues. Jeff Polzer, a Harvard Business School professor and one of the study's five co-authors, said: "People have adjusted their work patterns. These additional meetings were 20% shorter and the time spent per day in meetings was 12% shorter" (Green, 2020). A Morgan Stanley study found that the percentage of employed adults working full-time from home has increased from 22% to 39% while those working full-time outside of the home have decreased from 51% to 22% (Halzack, 2020).

In June 2020, Citigroup and Oxford University released their annual report on the current state and future expectations for technology at work. They found that as workers prepare to return to the office, three out of five would prefer to remain at home, and these researchers stated that we are in the "mid-morning" of the "post-office" era. They concluded: "In half a century, it may well seem extraordinary that millions of people once trooped from one building (their home) to another one building (their office) each morning only to reverse the procedure each evening. Commuting wastes time and building capacity. One building — the home — often stands empty all day; another — the office — usually stands empty all night. All this may strike our grandchildren as bizarre" (Castelluccio, 2020).

Concerning work at home benefits, the Omnicon CEO said: "We have seen firsthand that our people can be just as productive at home as they are in the office". The Capital One CEO said: "People are all in. They're engaged and the productivity is extraordinary from people working at home". The PayPal CFO said: "It's maybe sort of counterintuitive, but we have the highest level of productivity among our workforce that we've ever seen in our history". The Jefferies CEO said: "We will not be bringing anyone back to work because as best as we can tell, none of us has stopped working. Employees will make the final determination, based on their own personal assessments" (Sorkin, 2020d).

The Facebook CEO, Mark Zuckerberg, believes that within ten years about half of Facebook's 45,000 employees will be working from home permanently and an internal survey found that 40% are interested in such an arrangement. Zuckerberg said that the company will adjust pay based on the employee's actual work location so workers who currently earn the high salaries associated with the high-cost San Francisco Bay Area will not get to keep them if they move somewhere cheaper (Barro, 2020). For those employees who cannot or do not want to work at home, Israel and English researchers have a suggestion: start off with a four-day-in-office workweek, followed by 10 days off. It typically takes three days for COVID-infected persons to become contagious. Thus, they would be at home during their contagious period. This new routine would help reduce the number of new infections (Olster, 2020).

Thus, a complete re-evaluation of business models and taken-for-granted assumptions are occurring due to the impact of COVID, especially as stay-at-home orders are gradually being lifted around the world. People are questioning why they do it that way, such as getting on airplanes and sleeping in hotels four days a week, and they are adopting a lot of new habits, such as virtual online meetings. Also, many people are now becoming afraid to use public transit, like buses, trains, and subways. They would rather spend an hour or more sitting in traffic than risk 30 minutes exposed to crowds on a public transit system. Road trips are replacing plane and train travel for the summer holidays. Accordingly, car sales are staging a comeback and spurring the recovery of oil (Bloomberg, 2020). Consequently, ride-hailing all but collapsed in March as both Uber and Lyft rides were down 80%. Also, Airbnb laid off 25% of its workers. Consumers do not want to get in a ride-sharing vehicle or use an Airbnb rental until there is a COVID vaccine (Sorkin, 2020c).

Larry Fink, CEO of BlackRock, the world's largest asset management company with \$7.4 trillion under management, warned that the coronavirus could cause lasting economic damages. He thinks that many companies will reopen offices with only half of their staff which could last for more than a year. He observed that Americans may prove too afraid to take public transport or fly for a long time, warning about nervous customers and a wave of bankruptcies (Nagarajan, 2020). Nervous customers are also a major concern for movie theaters, concerts, sporting events, restaurants, etc. wherever people gather in crowds. In summary, there is going to be a lot of rethinking about these taken-for-granted assumptions, how we think about things, and how we do business together. Companies must be in this transient competitive advantage mindset going forward.

### *3. Near-term concerns and shorter-term budgeting:*

Due to the challenges of COVID, an innovative, entrepreneurial mindset may take root at organizations after many companies first focus on survival, which may include a pivot and/or spending money held in reserve (if they have any!) to make up for a sharp downturn in revenue. Companies will have to spend time getting accustomed to their new, normal business environment before they can proceed with a transient competitive advantage mindset. Many businesses will have to make tough choices. If they don't have cash coming in and they can't raise capital in some way, it's hard to justify paying people when you just can't afford it. U.S. unemployment set a record high at 30 million in April 2020 (Berger, 2020).

However, research suggests that companies that manage to retain more of their workforce through these economic dips and downturns tend to come out stronger than those that ruthlessly cut the workforce and move on from there. Companies that use more of a rolling forecast, rather than a static annual budget, can be better positioned to emerge from the COVID pandemic's effects on their finances and operations. Standard budgeting will be a dysfunctional process as sales targets and other annual metrics are unreachable in COVID times. It is better for companies to forecast in a shorter time range, updating scenarios as they get more clarity.

#### 4. Rethinking processes and products:

This short-term notion emphasizes that companies should be constantly testing or “running experiments at the edges of your organization”. For example, with stay-at-home orders from COVID emerging in the spring of 2020, universities immediately had to offer their classes online, and private universities found out that their students were balking at paying high tuition for such virtual offerings. The reality is that none of us know the ongoing and final impacts on business from COVID. The data simply does not exist. Companies will have to formulate some hypotheses and then very rapidly test to validate or invalidate them. The more experiments and the more tests companies can run, the faster they are going to learn and the clearer an ongoing or post-COVID picture is going to occur. A mistake is to do nothing and forget about investing in innovation and improvement. Companies that do figure out how to stay in the game are going to be much more ahead of the game once the other end of the COVID pandemic is reached.

Rethinking products and processes will be positive that emerges for businesses from this COVID pandemic. Companies are already figuring out how to do things in a new and cheaper way, especially with the digitization of tasks, which, for example, has allowed GM and Ford to convert some assembly lines from making cars to making ventilators. Other plants have started making personal protective equipment for health workers. Also, further automation of beef, pork, and chicken processing plants will help reduce the current threats to the shortages in the U.S. food supply chain. Computers using artificial intelligence and robots working in plants do not need social distancing nor do they get coronavirus!

With constrained resources, can companies accomplish the same outcomes perhaps in a different way? Can they do things in a way that perhaps is more cost-effective and less resource-intensive? Maybe there is a completely new way to rethink and digitize what companies are doing now. Companies need to start really looking at their existing portfolios of goods and services. They may find that there are products, services, or lines of business that are there just because they have always been there. The COVID crisis may signal a really good time for companies to decide to stop doing the things that are not really taking a company toward its future (Amato, 2020). Boards of directors need to become actively involved in all four of these observations about the future of business strategy and aggressively challenge corporate management about these issues.

## 6. COVID CASH MANAGEMENT PRINCIPLES

The chief justice of the Delaware Supreme Court, Leo Strine, criticized U.S. public companies as managing their balance sheets less prudently than middle-class Americans who are encouraged by financial planners to set aside a cash reserve of six months up to one year to pay their family bills in case of an emergency. In contrast, many public companies are running out of cash after about one month of COVID economic slowdown and have laid off or fired thousands of workers. Companies have already initiated typical operating working capital

tactics, such as reducing inventory levels, pressuring customers to pay their receivables early, and stretching payables as far as possible. This pressure on customers to pay, along with deferral of payables, is irreconcilable across the economy as these strategies are in direct conflict with each other.

Accordingly, the pace of cash movement between trading entities is slowing to a snail's pace, leading to cancellations of capital or elective spending and driving trading markets into a recessive state. A company's ability to survive will depend on its capacity to remain liquid until trading returns to near-normal levels. Thus, contingency plans are needed to maintain or achieve adequate cash reserves and for revenue, cost, and staffing operations, other than just expecting government bailouts. Without adequate cash reserves, the current liquidity crisis for many companies then turns into a solvency crisis and possible bankruptcy.

Boards of directors should demand and then monitor the financial prudence of their companies. For example, cash planning to help avoid such cash shortages in current and future business conditions is essential. There are five cash management principles that these companies should follow to manage cash in a crisis, especially during the COVID pandemic (Gifford, 2020):

1. *Forecast:* To manage the risk to current liquidity (and possible subsequent solvency), a company needs rolling cash forecasts. The current COVID uncertainties suggest a minimum forecast of at least six months with scenarios mapped out for a range of trading conditions, which is updated monthly. Any aspect of the business with material cash impacts should be forecasted in enough detail to allow for monitoring and corrective action if needed. Such a cash forecast is a valuable tool for management and boards of directors to anticipate and proactively manage business challenges, especially during this current COVID crisis.

2. *Set spending priorities:* Using this detailed forecast, management with supervision from boards of directors can analyze each spending category and prioritize what provides the business with the greatest level of resilience. Typically, payroll comes first, then key suppliers, and then secondary vendors and lenders. Existing debt positions and covenants need to be checked to avoid violations that can lead to the loans being called. If debt extensions or modified interest terms are needed, they have to be pre-approved with lenders and new terms confirmed in writing. If federal governments and central banks are offering relief programs, these need to be incorporated into payment plans and implemented as soon as they become viably available.

3. *Communication:* Internal and external communication strategies must be drawn up that target stakeholders, not just shareholders, are impacted by the cash plan. Early dialogue is essential for customers who are critical for cash receipts and critical supply chain vendors and creditors for possible delayed payment. Also, initiatives that change terms of employment must be consulted and agreed upon with staff before decisions are made to implement such changes. This communication may require collective action involving workers' councils and possibly unions. The earlier such conversations are initiated, the less stressful it is for all involved.

4. *Shorten the reporting cycle:* Time is the enemy in these COVID crisis periods. Short reporting cycles provide for early recognition of actual and forecast deviations, creating greater opportunities for corrective action. The COVID cash plan can be managed and monitored through a simple set of reports, including as a minimum:

- daily cash-on-hand reports;
- weekly inflow and outflow reviews;
- individual approvals for disbursement of significant value, with a low threshold being set;
- monthly forecasts based on reviews and monitoring, looking critically at actual performance with revisions based on the outlook for trading conditions.

Sharing this data widely through the company and with the board of directors will demonstrate the importance of cash management and secure commitment to the plan, especially during the COVID crisis.

5. *Plan for low cashpoints:* When low cashpoints are identified, normally for business seasonality, specific plans must be put in place to cover them. Operating actions, such as reduction of inventory, early receipt from customers, and slower payments should be planned at a detailed level, then recorded and tracked as part of the cash forecast. Also, employees may be convinced to take temporary pay cuts or reduced hours, or job sharing during this COVID crisis. Thereafter, financing may be required to cover any remaining cash deficiencies. Government bailout programs should be investigated as a potential source of either debt financing or possibly equity financing which was done during the 2008 financial crisis in Europe.

Wall Street bankers have been warning American corporations to get cash while they can, and accordingly, U.S. companies are issuing debt at a record pace in 2020. By the end of August, more than \$1.6 trillion debt had been issued, and it is expected to reach \$1.9 trillion by the end of 2020. Such debt helped many companies stay afloat during the pandemic lockdown but now threatens to curb an economic recovery. Many companies will have to divert even more cash to servicing and repaying debt, especially with lower earnings and operating cash flows, relative to their required interest payments (Scigliuzzo, 2020).

The ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) to interest expense, known as interest coverage, fell to 5.8 in the second quarter of 2020 for U.S. investment-grade debt companies, compared with a 20-year average closer to 7.0. The June 2020 level was the lowest since 2003. For junk-rated debt companies, the interest coverage fell to 2.3 in June 2020, also the lowest since 2003. Also, for investment-grade companies, the ratio of total debt to EBITDA was 3.53 in the second quarter of 2020 which was the highest in data going back to 1998 and up from 3.42 in the first quarter of 2020, compared to a 20-year average of 2.65. For junk companies, this leverage ratio stood at a record 5.42 in the second quarter of 2020, up from 4.93 in the first quarter, compared to 4.44 at the end of 2019 (Mercier, 2020).

Michael Feroli, the chief U.S. economist at JPMorgan Chase & Co., summarized: “The debt overhang is going to be a headwind for capital spending and hiring, not just in the second half of

2020 but probably into next year as well”. Similarly, Kathy Jones, chief fixed-income strategist for Charles Schwab Corporation, said: “An overburdened corporate sector is likely to grow less rapidly and that could slow the whole recovery down. This cycle is very different because we have had so much support from central banks, and we have so much liquidity in the market. But the old saying — liquidity does not equate to solvency — is something people need to keep in mind when they are investing” (Mercier, 2020).

In summary, this basket of actions is relevant for companies who are facing liquidity stress periods, like this COVID crisis, as well as solvency concerns. These five cash management principles and procedures should be taken whenever cash becomes the primary focus for survival. During this COVID crisis, a company needs to consider liquidity as the primary short-term business driver, as well as solvency for long-term survival, and establish a proven set of cash management principles ready for implementation. These five cash management principles create a basis for immediate, effective action. Boards of directors need to monitor their companies' cash plans for both short-term liquidity survival and long-term solvency survival.

## 7. COVID THREATS TO CORPORATE GOVERNANCE

The five principles for COVID cash management focus on short-term liquidity for company survival. In contrast, the four observations for COVID evolving business strategies focus more on long-term solvency for company survival. If businesses do become insolvent and do not survive, then there would be no need for their boards of directors and corporate governance. For example, the U.S. Chamber of Commerce report found that 43% of small businesses believe they will not survive six months in the current COVID economic conditions. OpenTable, the restaurant reservation service company, has predicted that 25% of all U.S. restaurants will go out of business, due to the COVID quarantines, as their business was down 95% in April 2020 (Ludlow, 2020).

Large businesses have mixed situations. Some are flush with cash (for example, based on second-quarter 2020 financial reporting, Microsoft and Berkshire Hathaway have \$123 billion and \$184 billion in cash, respectively, and are able to weather a long-term financial downturn. An extensive body of literature has examined corporate cash policy and the explanation has focused on financing frictions and agency conflicts (i.e., Han & Qiu, 2007; Harford, Mansi, & Maxwell, 2008; Opler, Pinkowitz, Stulz, & Williamson, 1999). First, financing frictions, including the information asymmetry about future investment opportunities, are likely to drive the precautionary demand for cash holdings, which could be the case for Microsoft. In a CNBC interview, Evercore's Lee Horowitz also suggested that one possible reason for tech companies to sit on cash is to keep “dry powder as a way to weather cyclical downturns” (Stevens, 2019). Second, agency conflicts lead to a positive relationship between corporate governance quality and cash holdings. Harford et al. (2008) found that firms with poor governance spend more cash than those with better governance, often to the effect that their accumulated cash reserves are lower, which may help explain the large cash

holdings of Microsoft and Berkshire Hathaway. Third, another possible reason for Berkshire Hathaway to hold vast cash reserves is to wait for the right time to take advantage of market pullbacks to pick up investments at a good price.

In contrast, other companies are saddled with massive debt loads and without a significant change in economic conditions, may be forced to close their doors forever. For example, some large retailers are saddled with massive debt, including leveraged buyout debt from private equity firm acquirers. Not having the financial prudence to have significant cash reserves to overcome short term cash flow problems, several large retailers with significant debt have filed for bankruptcy: Neiman Marcus (\$4.7 billion of debt), J.C. Penney Company, Inc. (\$4.2 billion), J. Crew (\$3 billion), Tailored Brands (\$2.8 billion), and Lord & Taylor (\$5 billion) (Repko & Thomas, 2020). Such risky and sometimes destructive business practices should be monitored closely by boards of directors. Large and small retailers were blindsided by the COVID pandemic as U.S. retail sales set a record with a 16.4% decline in April 2020, which was the biggest decline since the U.S. Commerce Department started collecting such data in 1992. Additional large retailers and companies who have been discussed as possible bankruptcy candidates include Sears, Bed Bath & Beyond, Best Buy, AMC Theaters, and the Norwegian Cruise Line (Suneson, 2020).

In April 2020, U.S. airlines successfully lobbied the U.S. federal government for a \$50 billion bailout, but half of that money was to cover payroll and will run out by the end of September 2020. Major U.S. airlines are now averaging 23 passengers on each domestic flight and losing \$350 million to \$400 million per day. Passenger traffic is down 94% and half of the industry's 6,215 planes are parked at major airports and desert airstrips (Hartogs, 2020). One of the big four U.S. airlines, American Airlines, is cutting 5,000 (30%) of its 16,500 management and administrative staff. Similarly, another U.S. big four airlines, United Airlines, is also cutting 30% (3,400 of 11,500) of its management and administrative jobs (Hartogs, 2020).

With much of the world closed for business and no widely available COVID vaccine insight, it may be years before airlines operate as many flights as they did before the COVID pandemic. Customers' fear about catching the virus on crowded planes is leading to reconfigured seating with the vacancy of middle seats and huge price discounts. Henry Harteveltdt, president of Atmosphere Research Group and an airline consultant, said: "It's easy to give away a product that you don't have any demand for". Airlines have drastically cut their schedules by as much as 90%, and this COVID crisis may bankrupt some airlines. Airlines are earning some money by using unneeded planes to transport cargo, including medical supplies, to take advantage of the increase in freight prices (Chokshi, 2020a).

Many industry analysts and executives expect years to pass before airlines fly as many passengers as before the COVID pandemic. Even then, a rebound may come unevenly, due to actual medical advancements, economic rebounds, economic regressions, and shifts in public tolerance for risk. Such unevenness is acknowledged by the CEOs of major airlines. The United CEO told investors: "When

we say plan for the worst and hope for the best, we really mean it". The Southwest CEO said: "Our goal is to thrive. The imperative here is to survive". The Delta CEO said: "Could there be a new public health agency that requires a new passport to travel? I don't know but we will be at the forefront of all those advances". Major U.S. airlines are now requiring all passengers to wear masks. Airlines are facing a public who is going to be scared to travel as a recent poll of past passengers found that 60% probably would not fly, even if stay-at-home orders are lifted (Chokshi, 2020a).

Accordingly, airline suppliers like Boeing, are feeling COVID impacts. Boeing just raised \$25 billion in a bond offering from private investors. For liquidity purposes, this \$25 billion bond financing is helpful for short-term liquidity, but it does not solve the long-term solvency problem. Boeing's future hinges on someone buying its planes. Southwest just reduced its order for the Boeing 737 Max by more than 50%, and American is taking its entire fleet of Boeing 757s out of service years ahead of schedule (Stewart, 2020). Consequently, Boeing is cutting 16,000 employees, 10% of its 160,000 workforce. After a 2020 second-quarter loss of \$2.4 billion with a 65% revenue decline, Boeing is planning additional job cuts. The Boeing CEO believes that air traffic will take three full years to return to 2019 pre-COVID traffic levels and probably two more years to return to airline growth rates pre-COVID. He predicted that at least one major U.S. airline will go bankrupt. The airline industry should gradually rebuild passenger confidence in travel with measures such as airport screening for fevers and illness. Also, the Boeing CEO said that jetliner airline cabins are not flying petri dishes as the cabin air-filtering system replaces its air every two to three minutes (Johnsson, 2020).

## 8. COVID OPPORTUNITIES FOR CORPORATE GOVERNANCE

To help companies survive, especially airlines, retailers, and restaurants, boards of directors have an opportunity to become heavily involved in their companies' challenges and the dilemma of forecasting future economic demand for their products and services. Unfortunately, as one financial analyst commented: "One theme of the COVID crisis is that anyone who tells you they know what is about to happen next is lying" (Stewart, 2020). A business consultant observed: "Companies have no idea what is going to happen whatsoever. Plenty of companies, especially retail, hotels, restaurants, and airlines would be happy to get 50% of their peak business back a year from now". As of April, 20% of the S&P 500 index companies have suspended earnings guidance and the numbers continue to grow (White & Ward, 2020).

Along with other economic forecasters, the asset management firm, Liberty Capital Management, had a typical discussion of U.S. economic prospects in its recent newsletter (Carbaugh, Dettloff, Foster, & Lenzion, 2020). In these times of so much uncertainty due to the COVID pandemic, writing an economic outlook is very challenging. Currently, it is not just an economic crisis but also a health crisis. However, the American economy has proven to be very resilient in the long run. Instead of



attempting to guess the amount of lost economic activity or the percentage impact on GDP, consider what the economic recovery will look like. Liberty Capital Management discussed three outcomes, based on graphs resembling the LUV letters.

An L-shaped recovery refers to an economy that declines steeply and then flatlines, experiencing weak or no growth. An L-shaped recovery refers to a graph that resembles the letter *L*, consisting of a sharp fall that precedes a flat line at the bottom. It represents a steep economic decline followed by a long period with no growth which is the worst-case scenario.

A U-shaped recovery is a type of economic recovery that resembles a *U* and represents the shape of a summary of key economic measures, such as employment, GDP, and industrial output. It is shown as a graph when an economy experiences a gradual decline in these key economic metrics, followed by a gradual rise back to its previous peak. A U-shaped recession is like a bathtub; “You go in. You stay in. The sides are slippery. Maybe there is some bumpy stuff in the bottom. You don’t come out of the bathtub for a long time”.

In a V-shaped recovery, the economy suffers a sharp but brief period of economic decline with a clearly defined low, followed by a strong recovery. V-shapes are the normal shape or graph for a recession, as the strength of the economic recovery is typically closely related to the severity of the recession. A V-shaped recovery involves a sharp decline in the economic metrics previously discussed, followed by a sharp rise back to its previous peak. This is the best-case scenario.

Ed Yardeni, president of Yardeni Research Inc., said: “You must be a realist that there are going to be economic aftershocks and no V-shaped recovery” (White & Ward, 2020). Accordingly, several analysts and economists have advocated a fourth letter in the alphabet, the *W*. After an initial economic recovery or spike, an aftershock of perhaps the return of COVID in the Fall, as several health experts are predicting, will lead to a second economic downturn which will eventually lead to a second spike or economic recovery, thus the *W* graph shape.

Until recently, many policymakers and corporate executives were hoping for a V-shaped economic recovery but now they are predicting a large drop followed by a painfully slow recovery, similar in shape to the Nike Swoosh logo (Hannon & Chaudhuri, 2020). Similarly, in both a Chartered Financial Analysts (CFA) Institute survey of more than 13,000 global investment management professionals and a McKinsey & Company survey of more than 2,000 global executives, more than 80% of respondents in both surveys thought that any economic recovery will be slow or stagnant in the short term before picking up eventually in the medium term. Specifically, 52% and 57% of the CFA Institute and McKinsey & Company respondents, respectively, forecasted a Swoosh or “hockey-stick shaped” recovery which implies some form of stagnation for two to three years or longer before a steady pick up. Thirty-four (34) percent and thirty-one (31) percent, respectively, predicted a U-shaped recovery. Only 10% and 6%, respectively, predicted a V-shape. Only 3% from each survey predicted an L-shape and the remaining 1% and 3%, respectively, predicted a W-shape (CFA Institute, 2020; McKinsey & Company, 2020).

The U.S. Federal Reserve Bank Chairman, Jerome Powell, said: “The recovery from the biggest shock that the economy’s had in living memory may take a period of time. It could stretch through the end of next year. We really don’t know” (Banerjee, 2020). The U.S. Congressional Budget Office projected that the coronavirus would cost \$7.9 trillion in U.S. GDP over the next decade, largely because consumers and businesses will rein in spending for years to come. It does not expect the U.S. economy to return to its pre-pandemic trend until the end of 2029 (Swagel, 2020).

The World Economic Forum (WEF) also discussed all the alphabetic shapes for economic recovery and even added a Z-shaped recovery, based on the pre-COVID upward economic trend. The WEF reported that analysts are forecasting the Nike Swoosh as the likely model of the painful crawl back to full economic health. The WEF summarized that many analysts, policymakers, and executives believe that only a COVID vaccine or rapid development in COVID treatment will see a return to pre-economic projections. As long as the virus remains dangerous, economic growth will be suppressed (Beech, 2020). Similarly, the more bearish economists say the “V” in any recovery stands for the vaccine (Curran, 2020). McKinsey & Company cautioned that one can’t exclude the possibility of a “black swan” structural damage to the economy, caused by a yearlong spread of the virus until a vaccine is widely available, combined with the lack of a policy response to prevent widespread bankruptcies, unemployment, and a financial crisis (McKinsey & Company, 2020).

The CEO of Nestle, the Swiss company, which is the world’s largest packaged food maker, said: “This is not going to be a quick recovery. This is going to be a several-quarter, if not, several-year kind of process”. The CEO of Unilever, the British-Dutch company, which is the world’s largest producer of soap and many other products, said: “All the scenarios we had that were V-shaped, we parked. We’re probably going through an extended period of living with COVID”. The CEO of Hershey, the U.S. company, which is one of the world’s largest chocolate and baked goods manufacturer, said: “While comparisons can certainly be drawn to weather-related disruptions or natural disasters, the reality is that we have never seen so many factors at play at the same time on such a global scale” (Hannon & Chaudhuri, 2020).

Due to this new COVID pandemic, everyone is guessing in predicting the shape of the economic recovery. Will it be one of the alphabet outcomes (*L*, *U*, *V*, *W*, or *Z*) or a Swoosh (the hockey stick) economic recovery? Boards of directors have the opportunity to become heavily involved in helping their companies try to figure out how to proceed in the COVID times by predicting and closely monitoring the economic shape of their own companies’ products and services to help their companies survive short term liquidity and long term solvency challenges.

Also, boards of directors have an opportunity to monitor how their companies are tracking the current COVID performance of their goods and services on various bases, such as country, region, province (10 in Canada), or state (16 in Germany and 50 in the U.S.). For example, the northern European countries, like Germany and France, are recovering faster than the southern European countries, like

Italy and Spain (Stephens, 2020). By August 2020, at least 20 million people around the globe have tested positive for the coronavirus, according to data from John Hopkins University with over 733,000 deaths from COVID-19. The U.S. leads with over 5 million confirmed cases and more than 170,000 deaths, making up about a quarter of all COVID-19 cases and deaths in the world (Karanth, 2020).

Tom Friedman, the author and New York Times Opinion Columnist, commented that since the U.S. has failed to develop a nationwide strategy and procedures for dealing with the coronavirus pandemic, its only hope is the quick development of a vaccine, i.e. what the “V” shape really stands for in a U.S. economic recovery (Friedman, 2020). Bloomberg economists say that until a vaccine or effective treatment for COVID-19 is available, the world’s largest economy will at best post trepid, uneven growth and, at worst, endure an extended period of malaise or even depression (Sheevev & Mathews, 2020). Accordingly, boards of directors need to do more detailed monitoring of their companies’ products and services on specific bases, such as by a state-by-state basis (since there is no U.S. national coronavirus policy), by virus hot spots in major global cities, such as New York, Washington D.C., Chicago, Berlin, and Munich, and by countries and economic areas, such as the U.S., Brazil, Russia, and the European Union.

## 9. CONCLUSION

Boards of directors have key opportunities to help navigate their companies through this COVID pandemic. For immediate company survival, boards of directors can focus on short-term liquidity by monitoring the five principles for COVID cash management. For future company survival, boards of directors can focus on long-term solvency by monitoring the four observations for business strategies for the new normal. Boards of directors can also advocate for a COVID disaster recovery plan with the following best practices (Butcher, 2020):

- identify potential threats and vulnerabilities and do a risk assessment;
- develop a crisis communication plan that covers employees, customers, vendors, and the public, i.e., all stakeholders, not just shareholders;
- draft an emergency response checklist;
- prioritize business functions;
- develop prevention and mitigation strategies;
- make arrangements for working off-site, possibly even permanently.

For ongoing monitoring of the COVID crisis and for developing an emergency response checklist, boards of directors have an opportunity to consider over thirty disaster response questions, as listed in the Appendix (Butcher, 2020). To avoid information overload, boards of directors could follow the strategy of the Adolph Coors Company (hereinafter to be referred to as Coors). To help monitor and control its business operations, Coors was the first public company to adopt the balanced scorecard on a company-wide basis. The balanced scorecard has four categories: employees, operations, finances, and customers. Coors developed several measures in each category and each year focused on just one or two in each category for business goals which were updated or

rotated on an annual basis in establishing track records for assessment (Grove et al., 2000).

Boards of directors could use the same approach with the 36 disaster response questions for COVID in the Appendix. There are five categories and the first four are the same as the four balanced scorecard categories. A new fifth one is the supply chain. These five categories are considered in the liquidity cash management principles and the solvency business strategies. For COVID assessment, monitoring, and planning purposes, boards of directors could initially obtain and analyze answers to all 36 questions. Subsequently, they could choose several key questions from each category or maybe all the questions in one or more categories if deemed now critical to immediate company survival, such as the finances category. These questions could then be monitored, updated, or even rotated on a quarterly or even a monthly or daily basis since the COVID crisis is evolving so fast. In summary, boards of directors have many opportunities to help their companies survive this ongoing COVID crisis. Such opportunities are critical for enhancing and strengthening corporate governance.

The BR Purpose of a Corporation expanded its traditional shareholder focus to the broader stakeholder focus, including employees, customers, suppliers, and local communities (Business Roundtable, 2019). This new focus is consistent with the views of Peter Orszag, the head of Lazard’s financial advisory practice and the former Obama administration budget chief. He argued that stakeholder capitalism is coming. U.S. economic stimulus packages have resulted in the U.S. Federal Reserve Bank (the U.S. national bank or the Fed) now owning a significant share of corporate debt and the U.S. federal government taking equity stakes in companies that have received aid, like the airlines. Also, for the first time in May 2020, the Fed is lending money to U.S. state and local governments with possibly limited or no paybacks. Such results will balance shareholder interests with broader stakeholder and social concerns and a more interventionist regulatory state. Orszag said that putting shareholders above all others is passé. Activist investors, like hedge funds and private equity firms, who often push for greater shareholder payouts and leveraged buyouts, are in retreat (Sorkin, 2020b).

This extended focus on stakeholders should motivate compensation committees of boards of directors to take a closer look at executive compensation strategies. Nearly one-third of more than 40 large companies seeking U.S. bankruptcy protection during the coronavirus pandemic awarded bonuses to executives within a month of filing their cases, according to a Reuters analysis of securities filings and court records between March 11, the day the World Health Organization declared COVID-19 a pandemic, and July 15, 2020. For example, on the eve of bankruptcy, firms showered their executives with bonuses to avoid examinations by bankruptcy judges on such compensation. In order of magnitude, these firms included Chesapeake Energy (\$25 million), Whiting Petroleum (\$14.6 million), J.C. Penney Company, Inc. (\$10 million), Neiman Marcus (\$8 million), and Hertz (\$1.5 million) (Spector & DiNapoli, 2020).

Concerning surviving companies’ executive pay, CGLytics, a compensation analysis firm, surveyed

the companies in the Russell 3000 Index, which comprises most of the publicly traded companies in the U.S., and found that 419 companies had disclosed details of salary cuts. Only 10% of those companies cut salaries by more than 25% of the executive's 2019 total compensation. Sixty-seven (67) percent of the CEOs who reduced their pay took only a 10% hit at most. These reductions typically hit just executives' salaries, which form only a small part of their total pay. Stock awards and bonuses are the much bigger parts of their pay packages. For example, here are the CEO pay cuts from some major U.S. companies: Delta Air Lines (5.35%), United Airlines (3%), Walt Disney (3.3%), and Marriott (2%). The GM CEO only deferred 10% of her salary. Although many boards and chief executives appeared to sense a need to tell workers and investors that they were sharing in the pain, board compensation committees should address such token pay cuts from a stakeholder perspective. For example, the Redfin real estate brokerage CEO did take a 100% pay cut and said: "The reason we did it is that we had to furlough or lay off more than a thousand people. It's not just about the pay cut; it's about the general issue that capitalism is not working for everyone" (Eavis, 2020).

Such a new focus on the broader stakeholder perspective with corresponding responsibilities for companies will increase the relevance and credibility of boards of directors and strengthen corporate governance, especially for a company's survival which may be the new COVID norm for company sustainability. Future research studies can investigate how industries, companies, and boards of directors, especially their compensation committees, are responding to the COVID crisis with corporate governance practices for a broader stakeholder focus. Future studies can also extend the research on response plans to other dimensions, including the development of a separate pandemic response plan aside from a natural disaster response plan, the role of boards in monitoring the plan execution, and a response plan for executives. Another research route is to conduct interviews of company boards and executives and analyze how corporations respond to the pandemic in practice. A limitation of this research paper is the current focus on COVID problems for corporate governance. Since this COVID pandemic is creating new problems and opportunities for businesses and corporate governance almost daily, this paper will become somewhat outdated.

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## APPENDIX: DISASTER RESPONSE QUESTIONS FOR THE CORONAVIRUS CRISIS

### Questions about your employees:

1. How can you protect your employees?
2. Will you train your employees on how to identify coronavirus symptoms?
3. If employees do not have additional sick time, how do you make sure they don't come to work if they are sick?
4. How will you respond if an employee is diagnosed with coronavirus?
5. Who can work from home?
6. How will your employees get access to the necessary information and documents they need to work from home?
7. Will you allow employees to travel?
8. If employees must travel, what steps will you take to ensure their medical safety?
9. How will you respond if employees need to care for an infected family member?
10. If employees contract coronavirus, will they be allowed to use only their own accrued sick time?

### Questions about your operations:

11. What parts of your business are crucial to keeping operating?
12. When should you exclude visitors from your office?
13. How will you decide if you need to close an office?
14. Will you close your business for the recommended time period of quarantine or longer?
15. How will you disinfect your office?
16. How will you keep employees, customers, and vendors informed?
17. Should you postpone meetings, events, and travel?
18. How will you communicate with employees, customers, and vendors if you have to close your offices?
19. Is your IT system robust enough to handle the demand if more employees are working from home?

### Questions about your finances:

20. If your offices are closed, how will you collect payments?
21. How long can your business survive without any new sales?
22. How will you pay your bills and payroll if your office is closed?
23. Do you have available lines of credit?
24. Will you pay your employees and for how long if you close your office?
25. If an employee contracts coronavirus, will you grant the individual additional paid time off?

### Questions about your customers:

26. Will you notify customers if an employee is diagnosed?
27. How will you stay connected to customers if employees are out sick or the office is closed?
28. How will you deliver on contracts if the office is closed or if there is a disruption in your supply chain?
29. Do you have a force majeure clause in your contracts?
30. How will you respond if a customer is affected by a coronavirus and doesn't pay your invoice on time?
31. Are there ways you can assist your customers in addressing the coronavirus pandemic?

### Questions about your supply chain:

32. Who are your mission-critical vendors?
33. Which vendors should you call to discuss their coronavirus plans?
34. Do you currently source any supplies or products from a virus hot spot?
35. How would a delay in the delivery of materials and products affect your production?
36. Do you have alternate suppliers?