How should Boards be thinking about the novel coronavirus?

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The novel coronavirus continues to dominate world news and to present foreseeable challenges as well as unanticipated scenarios almost daily for businesses and their workforces:

- Revenue impacts: Today’s Wall Street Journal reports that “[s]ome American companies say they could lose as much as half their annual revenue from China if the novel coronavirus epidemic extends through the summer…”
- Travel restrictions: Some companies are imposing blanket travel curbs on employees.
- Bad actors have predictably emerged to use this time of disruption for phishing and other data security breaches.

Boards understand that, as part of their fiduciary duties embodied in the so-called Caremark doctrine, they are charged with understanding and overseeing the company’s approach to managing its key risks. It is obvious that the risks presented by the novel coronavirus transcend “business as usual.” A well-advised Board will want to be informed on and understand the key risks facing the company stemming from the novel coronavirus; how management is identifying and assessing these risks; and the response and contingency plans being put in place.

At the same time, the Board will also want to understand the opportunities that may be presented by these extraordinary circumstances.

The potential risks, challenges, crises and opportunities will vary by company and industry, but typical risks (and opportunities) may encompass, to name a few:

- Supply chain challenges
- Revenue headwinds
- Employee safety
- Liquidity and balance sheet management
- Stock price pressures. Impact on stock price may present risks of M&A overtures from an opportunistic bidder or a new or intensified shareholder activist campaign. On the flip side, stock price impact may present an opportunity for buybacks or be an opportunistic opening to pursue an M&A target

A well-advised Board, to have the protection of the business judgment rule, will want to take appropriate steps to fully inform itself and ensure the processes and systems are in place to understand, assess and monitor these risks and to develop and implement appropriate response and contingency plans.

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