In response to the unprecedented global coronavirus (COVID-19) pandemic, Morrison & Foerster surveyed 110 in-house general counsels from global corporations to understand how this unanticipated health crisis is impacting their businesses now and over the long term and what they perceive to be their biggest business challenges over the next 12 to 24 months.
For our Coronavirus (COVID-19) Business Impact Survey, Morrison & Foerster surveyed in-house legal professionals around the globe with organizational revenues ranging from less than $250 million up to more than $20 billion. The survey was conducted between March 20th and 24th, 2020. The top three industries represented in the study are: finance and insurance (19.1%), technology (12.7%), and manufacturing (10%).

As expected, coronavirus (COVID-19) is having a significant impact on businesses, with impact averaging 7.2 on a 10-point scale—10 representing the most severe impact—and continuing near that same level (7.1) for the next six months. Legal counsels expect the impact level to decrease over the next 12 (5.7) to 24 (4) months, but do not see it completely dissipating.

It is clear that the COVID-19 crisis will have a long-term impact on the way business is done around the world—affecting everything from the way workforces are managed and how global supply chains are configured to capital structures and corporate governance.

Although impact was not rated at the “Severe” level (8+) on average, it’s important to note that over half (52%) of the surveyed companies rated today’s impact level at 8 or higher. This likely reflects the varied impact that COVID-19 is having across different businesses and industries.

That variation of impact across different businesses is even clearer when looking at companies valued at $20 billion or more in revenue, with 79% rating the impact of COVID-19 on their businesses at 8 points or higher—a 27 percent difference over companies in general. This difference may reflect the more global nature of $20-billion-plus companies and the likelihood they felt the impact of COVID-19 earlier than other companies not as geographically dispersed.
It is interesting to note that, within 24 months, the percentage of companies reporting low impact “as of today,” and the percentage of companies reporting severe impact “as of today,” will reverse (Today: Low 10%; Severe 52%; 24 months from today: Low 51%; Severe 12%).

Employment/human resources (85.5%), contracts (67.3%), and supply chain disruption (56.4%) are seen as the top three legal risks posed by COVID-19, regardless of company size. This is not surprising, given that COVID-19 is at this time first and foremost a human health crisis.

“These findings resonate with the broad range of the COVID-19-related business challenges we are assisting our clients to navigate,” added Mr. Newman. “It is critically important to mitigate not only the immediate crisis but also the long-term fallout. That’s why we are actively advising our clients on steps they can be taking both immediately and over the long term as this global pandemic continues to evolve.”

“Although it feels like we are in uncharted territory with regard to employees, the good news is there are some well-established legal principles in employment law that offer guidance on how to approach this issue,” said Morrison & Foerster Employment & Labor Partner Janie Schulman. “Among others, one very important guiding principle for employers to consider in this unprecedented situation is the need to be flexible,” she added. “Employees have long memories and they will remember how you treated them on this occasion and it will likely have an impact on their loyalty and their morale.”
Those companies that are suppliers of goods and services need to be thinking not only about their own operations but also about those of their entire supply chain and customer base. “In this economic environment, all companies should be closely monitoring their significant business partners for signs of distress.” said Morrison & Foerster Business Restructuring and Insolvency Partner, Jennifer Marines. “In addition to monitoring press coverage and public securities filings where available, companies should also closely review their customer accounts for abnormal payment activities. Often, one of the indications a company may be getting ready to file for bankruptcy is when trade terms are stretched without consent. There are several levers a company can exercise to mitigate risk in these circumstances, but it requires continued vigilance so that the company is not caught flat footed.”

By contrast, legal risk issues related to data security (29.1%) and privacy (18.2%) came in lower on COVID-19-related legal concerns. “Security appears to be lower on the scale likely because the other risks are paramount at the moment. Unfortunately, the number of data security incidents is likely to rise in the near future which may impact many organizations,” said Morrison & Foerster Privacy & Data Security partner Miriam Wugmeister.

IN ASIA, AS THE FIRST GEOGRAPHY IN THE WORLD TO FACE THIS HISTORIC GLOBAL PANDEMIC, OUR CLIENTS ARE JUST NOW STARTING TO SETTLE INTO A NEW NORMAL WAY OF DOING BUSINESS AND LEARNING WHAT WORKS AND WHAT DOESN’T AS THEY GO.

Timothy W. Blakely, Morrison & Foerster Hong Kong Managing Partner
In terms of business actions taken in response to the spread of COVID-19, the vast majority of companies surveyed are offering remote working environments (98.2%), canceling external (89%) and internal meetings/events (94.5%), and banning travel (90%) to address the COVID-19 challenge to their business.

Only a minority of businesses at this time have taken more drastic measures such as suspension of business (18.2%) or reductions in workforce, including layoffs and furloughs (12.7%) to address the COVID-19 challenge. This reflects that the majority of companies surveyed have operations in place to keep business running by offering effective remote working environments. Companies seem to be weathering the storm now, but may have to resort to more drastic measures as the crisis continues over the next six to 24 months.

Some other actions in-house counsel have taken to lessen the impact of the crisis on their business include the following:

- “Stood up international BCM COVID-19 working group; expanded VPN; expanded flex-time; allowed equipment purchases for home use; ensuring safety for those who are essential to work in facilities; building management in APAC offices have to check temperatures for those returning to the offices.”
- “Closed offices to all but essential on-site employees; closed cafeteria and exercise facilities; prohibited children from coming to our facilities.”
- “Continuation of benefits for furloughed employees”; “Continuing pay to non-exempt employees who cannot work remotely.”
To cope with some of these unprecedented challenges, in-house counsels said the following strategies were making a positive impact on their business:

- Transparent and frequent senior management communications to employees: “Comprehensive and regular communication at all levels; dedicated website with information for personnel.”

- Placing employee well-being first and foremost: “Allowing people to shift their schedules around child care responsibilities and not requiring them to take PTO if they cannot work a full day”; “Acknowledge personal impact. Focusing on people. Not only business.”

- Using online technology to stay in touch and on top of issues: “Dramatically increased use of video conferencing using simple apps like Microsoft Teams and Zoom has helped bridge the physical divide.”

In terms of legal department workload, approximately three out of five of respondents (62.7%) report that their current workload has increased as an immediate result of COVID-19 while one out of five (20%) report that workload has remained the same but changed, reflecting that companies are shifting their regular business priorities to deal with these new and more immediate priorities. Many reported that this increase in workload is expected to continue for the next six to 12 months.
From a personal perspective, in-house counsels report providing legal counsel on unprecedented issues (64.5%) and making decisions in uncertain times (55.5%) brought on by COVID-19 as being their biggest personal challenges.

Traditional legal priorities normally reported as challenges in their roles are now much lower on their challenge list, with only 22.7% of respondents saying focus on keeping transactions moving forward and 16.4% reporting keeping their teams focused on strategic priorities were their top challenges.

As companies around the world adapt to conducting business in a post-COVID-19 world, there is strong evidence to suggest that at least for the foreseeable future (the next six to 12 months, according to our results) priorities in the legal department will shift to address the more immediate and urgent needs that have arisen as a result of this global pandemic. Some of these issues may force GCs and in-house legal professionals to step outside of their comfort zones, but responses from survey participants positively indicate that many of their companies are well positioned to adapt accordingly and move forward. Indeed, as large and unprecedented as the COVID-19 pandemic is, it is, in fact, a crisis. And as in any other major crisis, there are lessons that can be learned by going through the crisis itself and using the experience to develop future plans and preparations to mitigate similar situations when the next unanticipated global crisis or pandemic comes knocking on the door.

CONCLUSION

“It is impossible to narrow this to 3 top challenges because there are so many and they are all happening simultaneously and are equally important. It is difficult to prioritize.”

“Significantly increased workload in a less optimal working environment.”

“Building executive consensus around important decisions at an unprecedented pace.”

IN THEIR OWN WORDS: BIGGEST CHALLENGES FACING IN-HOUSE COUNSEL