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COVID-19 PANDEMIC: EMERGING BOARD AND GOVERNANCE CONSIDERATIONS



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INTRODUCTION

Undoubtedly, the Corona Virus has given rise to unforeseeable consequences, not only in the corporate world but across all facets of human activities, as its impact has resulted in the largest restriction on the movement of people around the globe since World War II and an economic and trade impact which will have long term consequences.

Its therefore become pertinent for Corporate leaders in managing the impact of COVID-19 on the work environment to seek for ways to work effectively with management to explore opportunities for recovery and to set up winning conditions to take full advantage of the 'new reality' brought about by the effects of COVID-19. Such winning conditions will comprise essential governance roles that should be adopted to ensure the continuity of the business and essential human capital that will successfully deploy strategies towards rapidly changing risks that and will threaten the smooth running of operations.

Therefore, the Board should be composed of an appropriate balance of expertise, knowledge and experience needed to lead during the

¹ Curled from an address by Michael Humphreys GAICD, available online at: <https://aicd.companydirectors.com.au/membership/the-boardroom-report/volume-18-issue-3/coronavirus-how-should-your-board-respond> (accessed on April 10, 2020)

² ibid

³ <https://langlois.ca/role-board-directors-context-covid-19-corporate-directors-act/> (accessed on April 8 2020)

pandemic, review the company's overall situation afterwards, discuss lessons learnt, including how the business was disrupted, and how to minimize business and governance exposure in case of future occurrences.

After the pandemic, the risk of supply chain disruptions for companies in major industries will still persist as there will be shortage of raw materials, increased costs, delay in consumer spending and reboot of the global economy

This paper, therefore, will explore the potential impact of Covid-19 on the composition, role and other Governance considerations that corporate boards should pay more attention to in these turbulent social and Economic climes. We recognise that companies operate in different sectors of the economy, which will have varying impacts depending on the sector. Nevertheless, certain proficiencies and mandatory board competencies have been carefully chosen, as cutting across sectors and recommended for every board as a focal area.

IMPACT OF COVID-19 ON BOARD COMPOSITION

After the pandemic, the risk of supply chain disruptions for companies in major industries will still persist as there will be shortage of raw materials, increased costs, delay in consumer spending and reboot of the global economy. On the other end of the spectrum, energy demand and consumptions patterns will change

⁴ Abimbola Adekoya, "Impact of Covid -19 on SMES: Survival Impact" available online at: <https://loyalnigerianlawyer.com/the-impacts-of-covid-19-on-smes-survival-instinct-by-abimbola-adekoya> (accessed on April 10 2020)

⁵ Fernandes, Catarina & Farinha, Jorge & Martins, Francisco & Mateus, Cesari o. (2017). Supervisory boards, financial crisis and bank performance: Do board characteristics matter? Journal of Banking Regulation. 18. 10.1057/41261 -016-0037-5, available online at https://www.researchgate.net/profile/Cesario_Mateus/publication/312308662_Supervisory_boards_financial_crisis_and_bank_performance-Do_board_characteristics_matter/links/59fdabf0458515d070698766/Supervisory_boards-financial-crisis-and-bank-performance-Do-board-characteristics-matter.pdf (accessed April 8, 2020)

in line with lifestyle and economic variations, e-commerce will dominate, new categories of businesses will emerge, and an acceleration in business model transformation to defend market shares.

The authors posit that boards with better-qualified directors fared better as they were able to initiate and implement effective short-term and long-term policies.

A research carried out by economists at the University of Porto, Portugal and the University of Greenwich, United Kingdom illustrates that upon examining and critically analyzing seventy-two (72) publicly listed European Banks who were victims of the great recession, findings revealed that the composition of the boards and governance affected the banks, some adversely and others positively, and the performance was a function of their board characteristics. Board education was another important element of the research discussed above. The authors posit that boards with better-qualified directors fared better as they were able to initiate and implement effective short-term and long-term policies.

In reasserting the above, Dowshan Humzah, the Director and Chair of the United Kingdom Advisory Board, posits as follows:

“The heart of any board lies in its composition. A Board with a balance of differing backgrounds, skills and experience will have

⁶ L. Rathod, “An Effective Board of Directors”, available online at <https://diligent.com/en-gb/blog/an-effective-board-of-directors/> (accessed April 8 2020)

⁷ Nigerian Code of Corporate Governance 2018, Principle 2.5

⁸ <https://www.effectivegovernance.com.au/how-competent-are-your-directors/> (accessed April 14 2020)

deeper and richer discussions and bring appropriate expertise to as many of the challenges that it faces. Being able to see with different eyes also makes it easier for a board to see all opportunities and risks facing the organisation and reduces the risks associated with group-think”.

POST COVID-19 AND BOARD COMPOSITION REQUIREMENTS

Companies *do* need board members with backgrounds and proficiencies that complement each other and are related to the mission of the particular corporation. The board is also expected to periodically invigorate its capabilities by ensuring the appointment of new members with relevant skills and fresh perspectives, while retaining valuable knowledge, skills, experience, diversity and maintaining continuity.

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At the end of the Covid-19 pandemic, directors will be faced with a plethora of concerns, primarily, ensuring the company is a going concern and effectiveness of the board and management to achieve this feat, considering the new nature of the business environment.

⁹ <http://www.rmmagazine.com/2009/11/01/learning-from-past-pandemics/> (accessed on April 10, 2020)

¹⁰ *ibid*

¹¹ Risk Management and the Board of Directors, available online at <https://corpgov.law.harvard.edu/2018/03/20/risk-management-and-the-board-of-directors-5/> (accessed on April 15th, 2020)

¹² Richard Goyder, Chair of Qantas and Woodside Petroleum, speaking at the Australian Governance Summit, available online at <https://aicd.companydirectors.com.au/membership/company-director-magazine/2020-back-edges/april/ags-2020-the-new-governance-landscape> (accessed on April 10 2020)

¹³ *ibid*

Therefore, what competencies does a director need to be effective? Do all board members bring valuable skills, experience and expertise to the board? There is no simple answer to these questions. It depends on factors such as the organisation's industry, the regulatory environment, the business model, and the capabilities of the CEO and management team. But while there is no easy answer to such questions, we have highlighted competencies which should be represented across all corporate boards, they include:

- *Risk Management*: The unprecedented Covid-19 pandemic will require companies to immediately reassess risks, respective processes and controls. The board is expected to update the assessment on an-ongoing basis and should immediately determine, whether its contingency plans are still accurate.

The board must also determine whether monitoring and reporting protocols are in place to gather and provide the board with relevant and current information as to emerging and potential risks as a consequence of the measures against

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¹⁴ Martin Lipton, David Katz and David Shapiro "Key issues for Directors Relating to Covid-19" available online at: <https://corpgov.law.harvard.edu/2020/03/21/key-issues-for-directors-relating-to-covid-19/> (accessed on April 7 2020)

¹⁵ <https://www.advisory.com/research/health-care-it-advisor/it-forefront/2020/03/covid-19-technology> (accessed on April 10, 2020)

¹⁶ Nigerian Code of Corporate Governance 2018, Principle 1.10

Covid-19. Moreover, the board will need to be adequately equipped and properly informed on how demand for its product or services will likely be impacted during and after the pandemic. Also, there is a need to re-evaluate the company's requirements and commitments to suppliers and customers.

Risk management has become a governance issue that is squarely within the oversight responsibility of the board and directors must be able to exercise oversight over the process for the identification and assessment of risks, as well, as recommend prevention and detection mechanisms.

Furthermore, questions as to what trigger will be used to re-open the workplace? What measures will be taken to minimize physical, psychosocial and fatigue risks associated with working from home (remote working)? and alternative work arrangements available for employees who are not ill but still unable to come in, will need to be considered.

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¹⁷ The Financial Brand 'What Banking will look like after the Pandemic' available online at <https://thefinancialbrand.com/95025/banking-digital-technology-branding-post-covid-19-coronavirus/> (accessed on April 13, 2020)

¹⁸ Deloitte 'Impact of COVID-19 in the Greek Banking Sector and credit risk' available online at: <https://www2.deloitte.com/gr/en/pages/risk/articles/the-impact-of-covid-19-in-the-greek-banking-sector-and-credit-ri.html> (accessed on April 15, 2020)

¹⁹ Covid 19- A Booster for Digital Transformation <https://www.finextra.com/blogposting/18626/covid-19--a-booster-for-digital-transformation> (accessed on April 15, 2020)

- *Strategy:* COVID-19 has been dubbed as representing all the things businesses do not like, which include uncertainty, unpredictability and adverse economic consequences.

Post Covid-19, boards would be expected to review their strategies to identify possible vulnerabilities. Once concerns are identified, directors need to evaluate how to address them, whilst also bearing in mind the shareholders' best interests. This is a skill that must be prioritized on boards at the end of the pandemic, particularly as long and short term strategies must be considered and implemented. Consequently, it is important that organisations work with the facts and put in place the best plans they can, to operate in the new reality, after COVID-19

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Hence, Boards will have to be equipped to craft management and operational strategies for mitigating and making changes to the company's corporate and business

²⁰EisnerAmper LLP 'The Impact of COVID-19 on Insurance Companies'

<https://www.eisneramper.com/covid-19-insurance-ai-blog-0420/> (accessed on April 15, 2020)

strategy. This is, in order to ensure viability of the enterprise and evaluating opportunities for transactions that are made available by the changed circumstances. Boards should prepare balance sheets, so as to assess opportunities that will arise from this and most importantly, to support innovation and creativity.

- *Technology*: The COVID-19 management initiatives of governments which have introduced measures of social distancing, border closures, necessitating industries to lean more on technology for continued existence and carrying out day to day business processes.

*As the governing body of the company,
the board should provide oversight over
Information Technology Governance.*

As the governing body of the company, the board should provide oversight over Information Technology Governance. It is predicted by Smarkk Innovation Labs, that a potential impact of COVID-19 on business will be the mainstream of remote working and e-commerce. Accordingly, Corporate leaders will have to ensure core clinical, administrative, and communication systems are

²¹ <https://mercury-processing.com/industry-news/covid-19-coronavirus-impact-on-payments-and-fintech/> (accessed on April 15, 2020)

²² "Covid-19 will reset fintech market valuations; spur M&A" <https://www.finextra.com/newsarticle/35500/covid-19-will-reset-fintech-market-valuations-spur-ma> (accessed on April 15, 2020)

²³ *Ibid*, note 24

²⁴ <https://www.pwc.com/us/en/library/covid-19/coronavirus-impacts-industrial-manufacturing.html> (accessed on April 15, 2020)

²⁵ *ibid*

operational, sustaining means to support remote work and partnering with cloud and telecommunications vendors to safeguard reliable connectivity and data exchange. In summary, organisations will tend to adopt new technologies at varying rates and be expected to have a digital-first mindset.

Crisis and rapid change always create an opportunity for bad actors, and COVID-19 will be no different.

The composition of boards varies across industries. For example, a retailer's board should include people with interests in marketing, management of information systems and logistics, human resources, finance, real estate, and perhaps consumer-life-styles. This would differ from a manufacturer's board or insurer's board. Consequently, the following sectors have been apportioned with streamlined board roles so as to enable the board supervise and guide management and also to ensure that management adequately considers the extent of the risks generated by COVID-19 on the company's strategy, operations and financial health.

BANKING INDUSTRY

After COVID-19, banking will be quite different than it was pre-pandemic. The change in the way people bank, the future of work, the use of modern technology and the value of brands will all

depend greatly on the time it takes to settle on a 'new normal'. For that reason, corporate bank boards should consider the following:

- 1) *Risk Management*: Crisis and rapid change always create an opportunity for bad actors, and COVID-19 will be no different. Bank boards must be knowledgeable and experienced with sophisticated risk management models and methods especially credit risk, where amendments to credit risk models in terms of calibration and updated forward looking information should be expected. This is so, as financial stability is expected to decline due to changes in the risk profile of borrowers/facilities.

The Banking sector has been an early adopter of digital transformation with electronic money transfer real time, Automated Teller Machines, transactions through mobile/web browser et cetera.

- 2) *Digital Transformation*: The Banking sector has been an early adopter of digital transformation with electronic money transfer real time, Automated Teller Machines, transactions through mobile/web browser et cetera. In a banking industry which has initiated the digital change, it is imperative that the next set of digital transformation will evolve post pandemic. Paper currency, cheques, credit and debit cards, will be partially/completely

replaced/face extinction in the aftermath of COVID-19. The business models of selling and marketing will be virtual, and travels will be restricted except where essential or where digital contract documents are at a risk for execution.

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INSURANCE INDUSTRY

Insurance companies play a pivotal role during times of economic stress by helping companies and households manage risks and cushion against losses. Yet, as one of the biggest groups of investors, they are also vulnerable to volatility in financial markets. Hence, insurance boards should concentrate on:

- 1) *Strategy*: Insurance companies are and will face new pressures as they are hit with multiple challenges- all at once. The board and management will need to create and implement strategies concerning the following:
 - Strain on investment portfolios: Insurer's investment portfolios may be significantly impacted as a result of the consistent bearish trend of international and local markets.
 - Decreased premium volume: Full or partial closing of

businesses coupled with social distancing has led to decreased demand for insurance. Lower payroll levels lead to lower payroll-based premiums, such as those in workers' compensation, and an uptick in layoffs results in fewer people buying houses, cars, and other insurable purchases. A decrease in premium volume means a decrease in income for insurers.

- Coverage Disputes: Pandemics are generally excluded from insurance policy coverage and therefore policy premium has not included the necessary charges to provide such coverage. However, due to covid-19's overwhelming impact on business continuity, insurance companies will be forced to provide insurance coverage for business interruption and other losses for claims resulting from the COVID-19 pandemic.

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FINTECH COMPANIES

A large proportion of private fintech firms are less than ten years old and facing their first market downturn. Many corporate boards may be inexperienced in responding to difficult business conditions - weak customer demand, working capital squeeze, and a tougher environment to retain employees. The following should be taken into consideration as pertinent to the effectiveness of the board. They include:

- 1) *Business transformation strategy*: The flexibility in business models and the ability to dial-up or dial-down costs will become critical for Fintech and will determine which firms survive. Fintech with recurring revenue and long term contracts will be impacted less than firms with transaction-based business models, while consumer-oriented B2C Fintech (e.g. Challenger Banks) will see business performance contract faster than B2B models.

- 2) *Corporate Restructuring*: According to a report by Rosenblatt Securities, there is a likely deterioration in fintech operating performance during a deep downturn, as funding sources evaporate and exit options change significantly. The report states that these forces may feed off each other, creating a vicious cycle where deteriorating business performance makes funding more difficult and vice versa, should the market downturn last long. This reduced funding for fintechs' could force firms to seek collaboration, investment, or acquisition by traditional financial institutions.

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MANUFACTURING INDUSTRY

The manufacturing industry has been geared to be adversely affected by the Covid-19 pandemic, primarily for two reasons: First many manufacturing jobs are onsite and cannot be carried out remotely. Second, slowed economic activity will likely reduce demand for industrial products globally. Hence manufacturing boards should pay attention to the following:

- 1) *Liquidity Strategy*: The board will need to assess how profitability, loans, revolving credit and cash flow reserves can support ongoing operations in a low-revenue environment. Additionally, manufacturers will need to plan for a recovery that may not arrive for at least one year, based on prior crisis the industry has experienced.

CONCLUSION

We hope that this paper will spur corporate boards to undertake a board skill and Governance framework analysis, which is effective in cases where replacing the current membership is not an option. Also, where a corporate board finds it is lacking in essential competencies, the Board should proactively seek measures for upskilling or make provisions for collaborating efforts with a highly competent management team and expert advisors and consultants. That the board has knowledge of its deficiencies and addresses these gaps in some form, or another will go a long way towards board and management effectiveness in cushioning the impact of the pandemic on Business performance and sustainability

²⁶ <https://www.effectivegovernance.com.au/how-competent-are-your-directors/> (accessed on April 15, 2020)