Navigating the Pandemic: A Board Lens

KPMG Board Governance Centre – Nigeria
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A pandemic often creates ripple socio-economic effects on organisations and the economy at large. A critical case in point is the recent coronavirus disease (COVID-19) outbreak which is significantly impacting lives & healthcare systems, disrupting business operations, interrupting supply chains, slowing down markets and presenting a high risk of recession in Nigeria and across the globe. Consequently, the COVID-19 pandemic has created unexpected and hitherto unanticipated challenges that are placing the operations, cash flow, corporate leadership and continuity of numerous businesses in Nigeria under intense pressure.

Navigating the uncertainty of a pandemic crisis requires organisations to focus on people, cashflow and operations while keeping sight of the bigger picture – strategy, risk and business resilience – to ensure business continuity and survival beyond the crisis.

The board of directors play a pivotal role in formulating and steering a company’s response to a pandemic crisis and addressing any vulnerabilities that could arise from the crisis thereafter. To assist the board in their oversight of the company’s pandemic response, we highlight seven (7) key areas of focus:

1. Safety and wellbeing of stakeholders:

Following the emergence of COVID-19 in Nigeria, the safety and well-being of stakeholders should be first and foremost on the agenda of all corporates. In order to ensure the safety of employees, a lot of businesses have had to shut down in line with government directives and implement a work-from-home policy where possible. However, companies providing essential goods and services are still in operation. Such organisations need to ensure that the right health and safety measures are put in place during the course of this pandemic.

The board is ultimately responsible for establishing policies and practices regarding its social, ethical, safety, working conditions, health and environmental responsibilities. Consequently, the board needs to put in proactive enterprise-wide measures in place to ensure the wellbeing of employees and other stakeholders during and after the pandemic. Below are some of the key questions for directors to ask.

- What policies are in place to protect and support employee safety and wellbeing?
- Does the company have policies to govern hygiene programs, travel restrictions, social distancing practices, remote work policies and healthcare?
- How frequently do we reassess these policies as the crisis evolves and based on guidance from medical experts such as the Nigeria Centre for Disease Control (NCDC) and World Health Organisation (WHO)?
- What processes have been put in place to minimise transmission in the workplace if your company is required to provide essential services during the lock down?
- Do we communicate these policies and provide clear, timely and frequent updates to employees?
- How frequently does management communicate with the employees? Recent surveys indicate that employees want to hear from the CEO/Top...
Management at least once a week, if not twice, and that employees have greater confidence in the COVID-19-related information they receive from management than in media reports.

- Is there confusion about the policies? Has management addressed employee needs? What resources are available to minimize stress and concern?
- How are we maintaining employee morale and corporate culture

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

- How are the company’s customers, suppliers, and communities being impacted by the crisis, and how is the company supporting those stakeholders?
- Is the company communicating proactively with its customers and the broader marketplace about the company’s response to the COVID-19 crisis?
- Is the company connecting emotionally with their customers through these uncertain times by demonstrating empathy and choosing the right emotional response to its customers’ individual circumstances during the crisis?
- How swiftly is the company responding to changing customer needs and finding solutions to new customer problems through innovation? Organisations need to maintain a ‘customer-first’ approach in order to retain preserve and grow market share when this crisis ends.
- Is the company actively demonstrating corporate purpose by being part of the broader response? How can the company be a community player by supporting societal responses to the pandemic crisis?

Should the lock down restrictions be lifted on non-essential service providers, how prepared is the company to resume operations?

- What measures have been adopted by the company to help ensure a safe work environment? Are infection control supplies such as alcohol-based hand sanitisers and personal protective gear available for workers?
- Is there a plan for ensuring compliance with case reporting guidelines, quarantine or isolation requirements and other safety guidelines advised by health authorities?

2. Business continuity and resilience planning

One of the board’s key roles is ensuring the continued survival and growth of the company, as highlighted in the Nigerian Code of Corporate Governance (NCCG). It is therefore imperative for the board to oversee the adequacy of the measures put in place by management to ensure the company exists as a going concern. Below are some of the key questions for directors to ask.

Is the board confident in the company’s business continuity and resilience plan?

- Has the scope of the crisis and its impact on the organisation been determined? Are the board and management of the company aligned on what needs to be done?
- Has management identified the essential functions critical for the company to perform in periods of distress?

- Is there a clear definition of crisis-response roles and responsibilities for the board and management to foster healthy board-management dynamics?
- Are there benchmarks and checks on progress as crisis management and mitigation efforts go forward?
- Is the company well-positioned to adapt and respond to business disruptions and crisis rapidly, and safeguard assets to ensure continuous business operations?
- Does the company have a realistic recovery plan to be implemented after the crisis subsides?

What processes are in place to support continuous business operations amidst remote working?

- Has management assessed the corporate policies and procedures that will not be feasible in the course of remote working? Have alternate processes been defined and communicated to all staff?
- What policies have been put in place to support the electronic exchange of information within the company and outside the company? This may include a formal acceptance of electronic forms of documents that were otherwise accepted in hard copy forms only e.g. contracts, invoices, etc. and communication of same to relevant employees.
- What policies have been put in place to support the electronic approval of documents and transactions? This may include defining the circumstance under which approval can be granted by email and use of electronic signatures; and processes that need to be followed to minimise any fraud risk that could arise.

How will the crisis impact employee productivity and management performance during this period?

- What is the impact on the business if a key executive becomes ill? Has a succession plan been developed and have potential successors to critical roles been defined?
- Do role descriptions, performance objectives, and/or organization structure need to be modified?
- How will remote working conditions, travel restrictions, social distancing practices, and employees’ personal circumstances impact staffing and key activities?

Given the uncertainty regarding the economic impact of crisis, does the company conduct periodic scenario plans to assess its preparedness for several outcomes?

- What scenario planning is the company doing around the pandemic and possible recession?
- Is the board satisfied with management’s set of probability scenarios for how the future might unfold and consideration of the risks that those scenarios present?
- Do the strategic options balance a commitment to a course of action with the flexibility to adjust amid different future scenarios?

3. Financial risk management

Lessons learned from the 2008 financial crisis – marked by turmoil in world markets, shortages of cash and liquidity, tremendous volatility and uncertainty, and the prospect of a prolonged recession – can provide a basis for boards to consider near and longer term financial risks
posed by the coronavirus crisis. Below are key questions for directors to ask.

What is the array of financial risks to the company and how is management addressing these risks under different scenarios?

- **Liquidity.** Does the company have sufficient cash and unused credit lines/borrowing facilities to meet short term needs? Which regulatory and supplier remittances can be negotiated for extension? What capital and operating expenditures can be deferred? Is the company at risk of default on debt covenants? Which borrowing facilities need to be restructured?

- **Funding.** Does the company understand its exposure to lenders who may be experiencing financial difficulty? Does the company have plans to raise debt/ equity in the short and medium term? What is the impact of a surge in loan loss provisions on the capital adequacy ratios for banks? What kind of regulatory forbearance on capital requirements need to be sought?

- **Market.** What is the exposure of the company to fluctuations in foreign exchange? How is the crisis impacting commodity costs and procurement strategies? How will changes impact the ability of the company to obtain suitable economic hedges against commodity and currency fluctuations?

- **Credit.** Does the company understand its exposure to customers who may be experiencing financial difficulty? Are trade receivables a concern? What is the level of increase in credit risk? Which credit facilities need to be restructured to reduce undue exposure to non-performing loans? What framework needs to be put in place to qualify customers, determine the amount of credit that can be extended to them and reduce exposure to increased credit risk?

Have the significant risks for the company that may be posed by fair value and possible asset impairments been assessed?

- **Assets.** Are assets being carried at appropriate values? Have some receivables become impaired? Have the company’s investments in debt and equity securities being inventoried to identify declines in value or impairments? Are there non-financial assets that have become impaired such as goodwill and other intangibles? Are fair values appropriately determined?

- **Liabilities.** Has COVID-19 resulted in an unavoidable liability or loss-making contract? What is the impact on employee benefits? How does COVID-19 impact current and non-current classification of debts?

- **Financial instruments.** What are the key financial instrument impacts? Have the credit losses and impairments been appropriately determined? How is hedge accounting impacted?

4. Supply chain disruptions and contingency planning

Supply chain disruption is being felt across most industries with many companies experiencing some level of disruption. Currently, movement restrictions, border closures and lockdown directives across the nation and globally are hampering the smooth flow of products across markets, as well as inflow of raw materials for production. The Board needs to ensure that management has identified and implemented appropriate contingency plans to abate the impact of gaps in the company’s supply chain network. Below are key questions for directors to ask.

What measures are being taken to stabilize the company’s supply chain during and beyond the crisis?

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

- Do critical suppliers have documented business continuity and disaster recovery plans?

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

- How is the company supporting small but critical suppliers – for example, with working capital infusion and loans – to help them weather the crisis and remain viable?

- What is the status and duration of the company’s inventory? Is the safety stock sufficient to provide a buffer and mitigate the risk of shortfalls in products or materials?

5. Information technology governance

The crisis outbreak has caused significant disruption to businesses and necessitated the need for remote and virtual working. Consequently, there has been an upward trend in attempted cyber-attacks through COVID-19 themed malware and spam campaigns, leading to malware download and ransomware attacks; some of which if successful could lead to unavailability of critical systems and data.

The board is ultimately responsible for ensuring that the company’s information technology governance framework is adequate for mitigating IT data risks. Below are some of the key questions for directors to ask:

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

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

Is the board satisfied with the information security policies in place to address cyber-risks arising from remote working and virtual operations?

- Have employees been alerted to and trained on potential cyber-attacks such as scams/phishing emails attempting to take advantage of the crisis to access systems and personal information?

- Are security settings in place for remote connections in place and robust? Are the company’s data backup policies adequate?

- What controls are in place to manage the risks associated with the use of personal devices to access company networks? What is the stance of the organisation on the use of private emails for any internal and external communication?

- Are there policies on the appropriateness of the use of social media and instant messaging applications for official meetings and transfer of confidential information? Have the facilities acceptable for virtual
measures been reviewed, approved and communicated to employees?

6. Strategic planning for the future

With information changing rapidly, companies need to recalibrate their responses and potentially reframe their thinking about how the COVID-19 crisis will impact their business in the medium to long term. The board needs to bring to bear their knowledge, expertise and independent judgment in reviewing the organisation’s strategy for continued relevance. Below are some of the key questions for directors to ask.

How is the company modifying its strategic initiatives to respond to significant changes in the business environment?

- What changes to the company’s strategy are required to maximise opportunities arising during and after COVID-19? How does the crisis impact facets of the company’s operations? What changes are required in the company’s strategy to ensure business growth and survival?
- What technology enabled services can be provided by the business to customers to meet the surge in demand for electronically enabled services during and after COVID-19? How can digitisation be infused in the company’s business model to improve overall customer experience and enhance borderless trading with minimal physical disruptions?
- Does the company have an adequate digital transformation strategy in place to identify processes that can be digitised and a clear road map for implementation? How well is the company embedding digital initiatives such as artificial intelligence, the internet of things and blockchain technology in its business model?
- How do key global and regional developments such as the African Continental Free Trade Agreement (AfCFTA) impact the company’s business model?
- What changes need to be made by financial institutions to their investment portfolio, loan portfolio, risk appetite and sector obligor limits, with a view to playing stronger in emerging sectors with high potential going forward?

7. Board reporting strategy

Given the fast and fluid pace of the crisis, the board needs to stay apprised of the company’s response to the crisis and obtain from management, frequent periodic updates to the board. Thus, the management reporting system should be robust and effective for timely and accurate information to the board. Below are some of the key questions for directors to ask.

What is the impact of the crisis on the board’s operations and effectiveness?

- Does the board have contingency plans in place to meet virtually as needed? Secure technological tools and software should be explored for virtual board meetings. In April 2020, the Nigerian Stock Exchange (NSE) issued guidelines on virtual board, committee and management meetings for stakeholders to promote the adoption of leading governance practices and secure technological infrastructure during virtual meetings.
- What changes are required in the company’s articles of association and governance policies to enhance prompt decision making during the crisis and use of technology for board meetings? For example, the Corporate and Allied Matters Act (CAMA) requires a minimum of 14-day notice for board meetings except otherwise stated in the articles of association, which may not be effective during a crisis period.
- How has the board chair and company secretary ensured adequate and appropriate communication plan and media are in place for conveyance of urgent information to other board members?
- What process has the company secretary put in place to ensure that external attendees do not join virtual meetings before and after their attention is required? How can the technology utilized for the meeting be deployed to address these issues and guide external participants appropriately?
- What contingency plans are being put in place by the company secretary to reach participants who lose their internet connection during meetings and what is the level of technical support provided by the company’s information technology team to ensure secure and seamless execution of virtual meetings?

Conclusion

KPMG recognizes that these are challenging times for most organisations and is willing to work with you in navigating some of the challenges posed by this crisis. In light of this, we are issuing several weekly business impact series on COVID-19 which you can refer to for more information on topical issues arising from the pandemic and suggestions on how to manage them. Follow this link for more details.

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