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Boards and the virus: Leadership in times of crisis



Guidelines

Chat

Questions

Polls

People

-
- Your mic is off
 - Use chat to react spontaneously
 - At the end of their presentation, the speakers will answer your questions in the question tab. Vote for a relevant question by clicking on the arrow next to the question.
 - This webinar is recorded



Stilpon Nestor – Managing Director and Senior Advisor

Stilpon is the founder of Nestor Advisors. In his role as Managing Director and Senior Advisor, he has advised the boards of some of the largest companies and financial institutions in the EU and emerging markets in Europe, Asia and the Middle-East across a variety of sectors, as well as IFIs.



David Risser – Director

David has been advising leaders on governance for the last two decades. He supports boards, managers, families on governance effectiveness and risk management and advises public, state-owned and private companies, DFIs and impact investors in Europe, Asia, the Middle East and Africa.



Leila Kamdem-Fotso – Partner

Leila has an extensive track record of organisational transformation projects, regulatory and compliance advice. Leila specialises in Governance and risk management, Business process improvement, Banking regulation and Project management.



Phuong Gomard – Director

Phuong leads the Risk Management and Prudential Regulation banking practice. She also specialises in large scale project management in relation to risk identification, control framework and risk mitigation across all areas of business.



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Decision-making in a crisis

Hectic: More decisions / Tu



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Decision-making in a crisis

Foreshortening: The present looms large

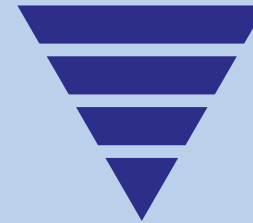


Uccello: The battle of San Romano

Decision-making in a crisis



Self-centred: less “commons”
more “me”

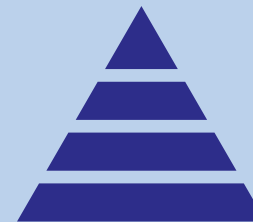


Global
National
Company
Individual

or

*“Sympathetic”: “even the
worst ruffian derive(s) sorrow
from the sorrow of others...”*

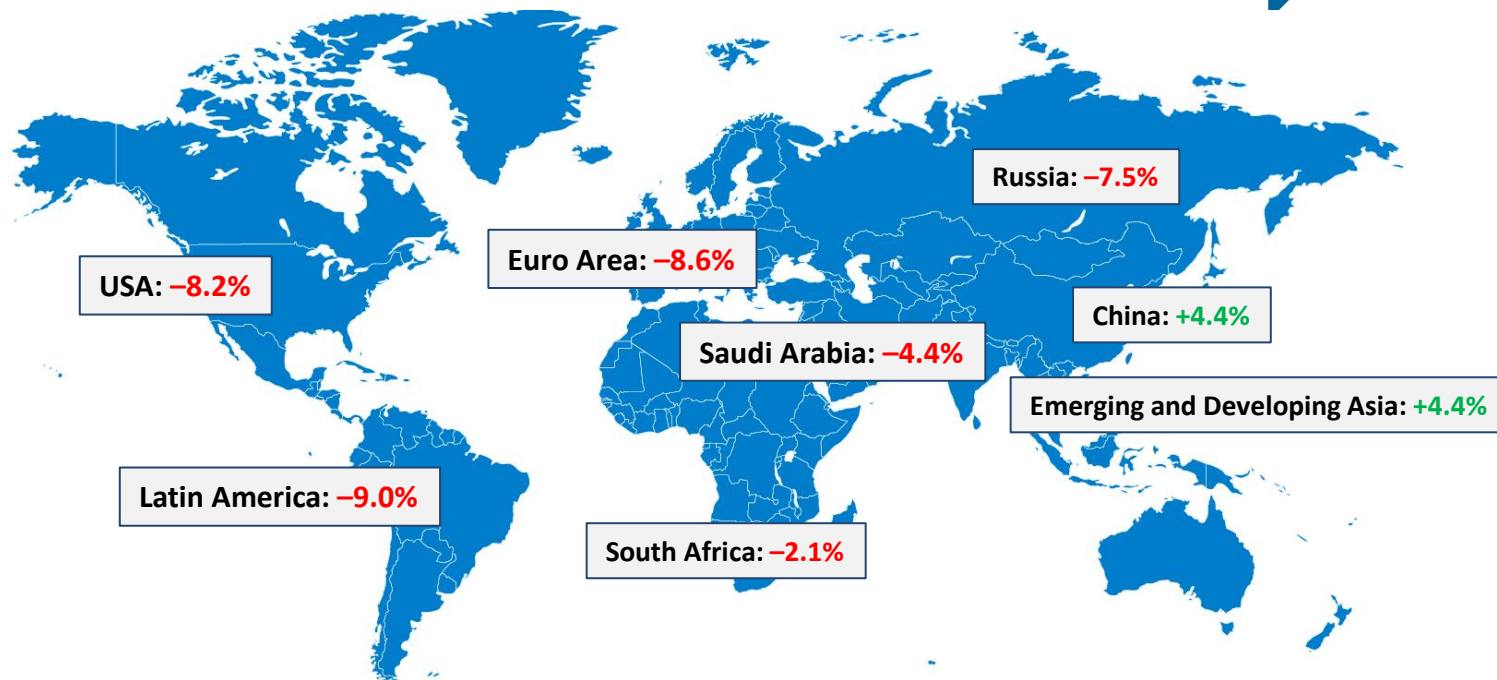
Adam Smith



Global
National
Company
Individual

How big is the crisis?

Size of the Hit – Nominal GDP growth projections for 2020 (as of June 2020)



Recession seems unavoidable

...and of unknown magnitude



Sharpest, fastest economic contraction in 300 years

Harvard Business Review

“Current forecast spread among analysts is far larger than at any point during the past 20 years, and significantly above that seen during the height of the financial crisis.”

Managing risks emerging from the COVID-19 crisis

Liquidity risk

- Re-forecast.
- Increase frequency of monitoring.
- Renegotiate payment terms.
- Limit payments out (e.g. dividends).
- Revisit payment authorisation limits.
- Consider re-financing debt.

Business continuity and resilience

- Map out and assess critical or important business services.
- Review impact tolerances and stress-test resilience measures.
- Monitor third party risk.
- Evaluate measures implemented.
- Identify vulnerabilities as the crisis moves on.

Compliance risk

- Stay on top of key regulatory updates.
- Monitor measures and guidance from the government.
- Connect compliance with business strategy and crisis response.
- Adjust policies and controls.

Loss of customers

- Maintain relationships with existing customers.
- Adjust service offering.
- Adapt delivery model.

Cybersecurity risk

- Raise staff awareness to higher vulnerability of personal computers (vs company networks).
- Perform penetration testing to uncover vulnerabilities and assess risk of cyberattacks.
- Adapt security toolsets to manage remote computers.

Reputational risk

- Be aware of reputational impact of shareholder pay-outs when receiving state subsidies.
- Manage reputational risk arising from executive pay.
- Consider more carefully the social implications of your actions.

What does the crisis mean for corporate governance?

1 Director duties

Duty of Care

- More “care”: focus on present crisis issues in detail.
- More focus on liquidity and solvency.



Australia lifting of director liability for insolvent trading.



U.K. is suspending wrongful trading provision Section 214 of the Insolvency Act 1986.

Duty of Loyalty

- Self- centred thinking might lead to self-dealing.



During the 2008 financial crisis, some global banking groups used foreign subsidiary liquidity, thus “transmitting” stress to emerging markets – regulators found subsidiary boards “disloyal” and changed the rules of the game.



During the 2008 financial crisis, some family businesses transferred liquidity within the group, increasing firm-specific stakeholder risk – to be avoided.

What does the crisis mean for corporate governance?

2 NEDs: a new balance between supporting and challenging management

In crisis times, management needs to reduce time spent on non-essential areas. There could be fewer full board meetings supplemented with alternative options.

Examples of alternative options:

The mini-board: a large company delegated significant decision-making power to a “Chairman’s Committee” meeting on a weekly basis. This Committee includes NEDs and Execs.

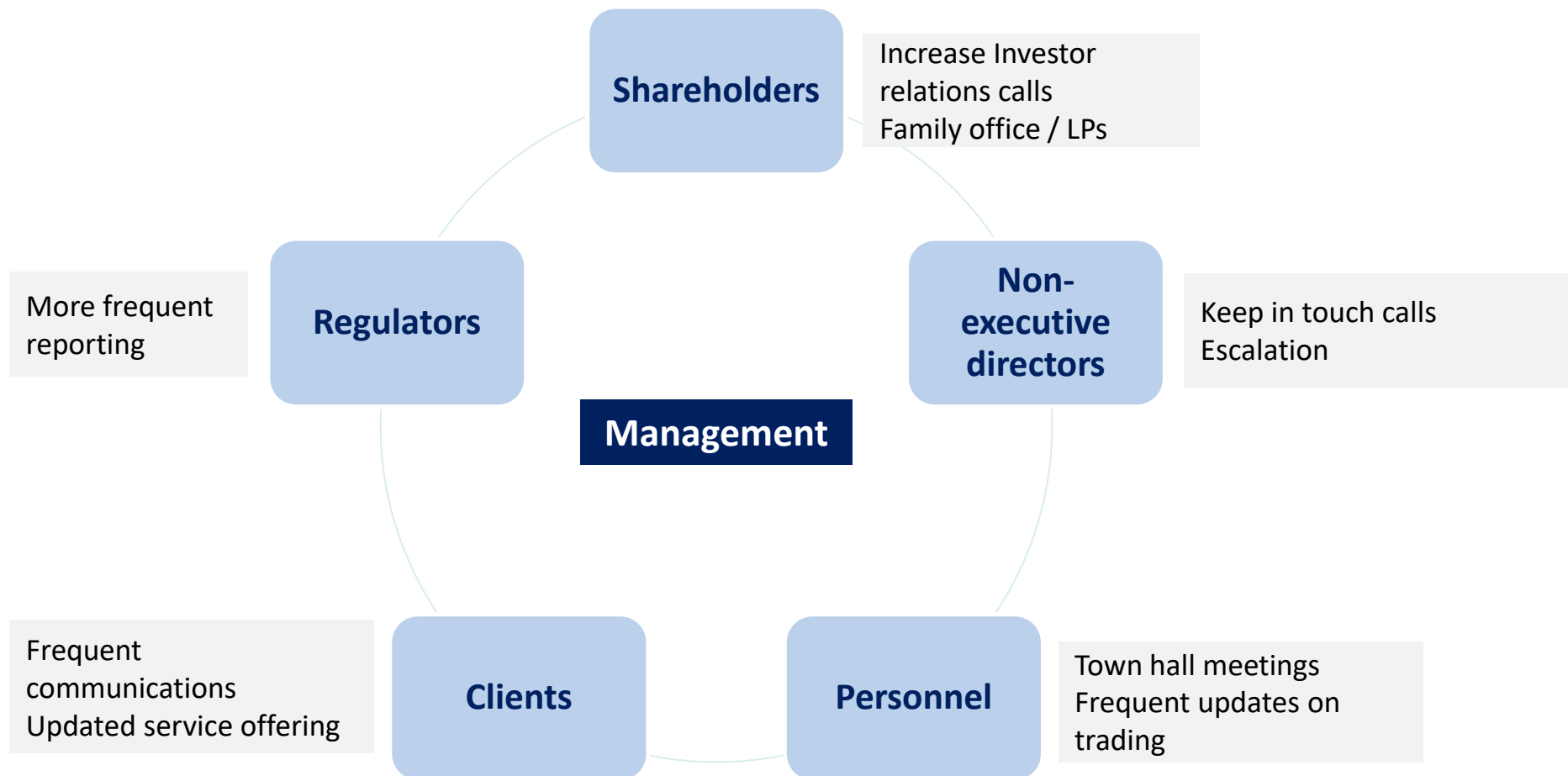
Board chair and vice chair (the family patriarch) attend all executive committee meetings as silent observers and share input separately.



SME: In a seven-member Board, a NED familiar with Africa-specific matters stepped in and took on business development responsibilities for the region.

What does the crisis mean for corporate governance?

3 Intensify communication



What does the crisis mean for corporate governance?

4 Board's composition

...Changing horses in midstream...

**Crisis times might not be the best times to alter
board composition...**

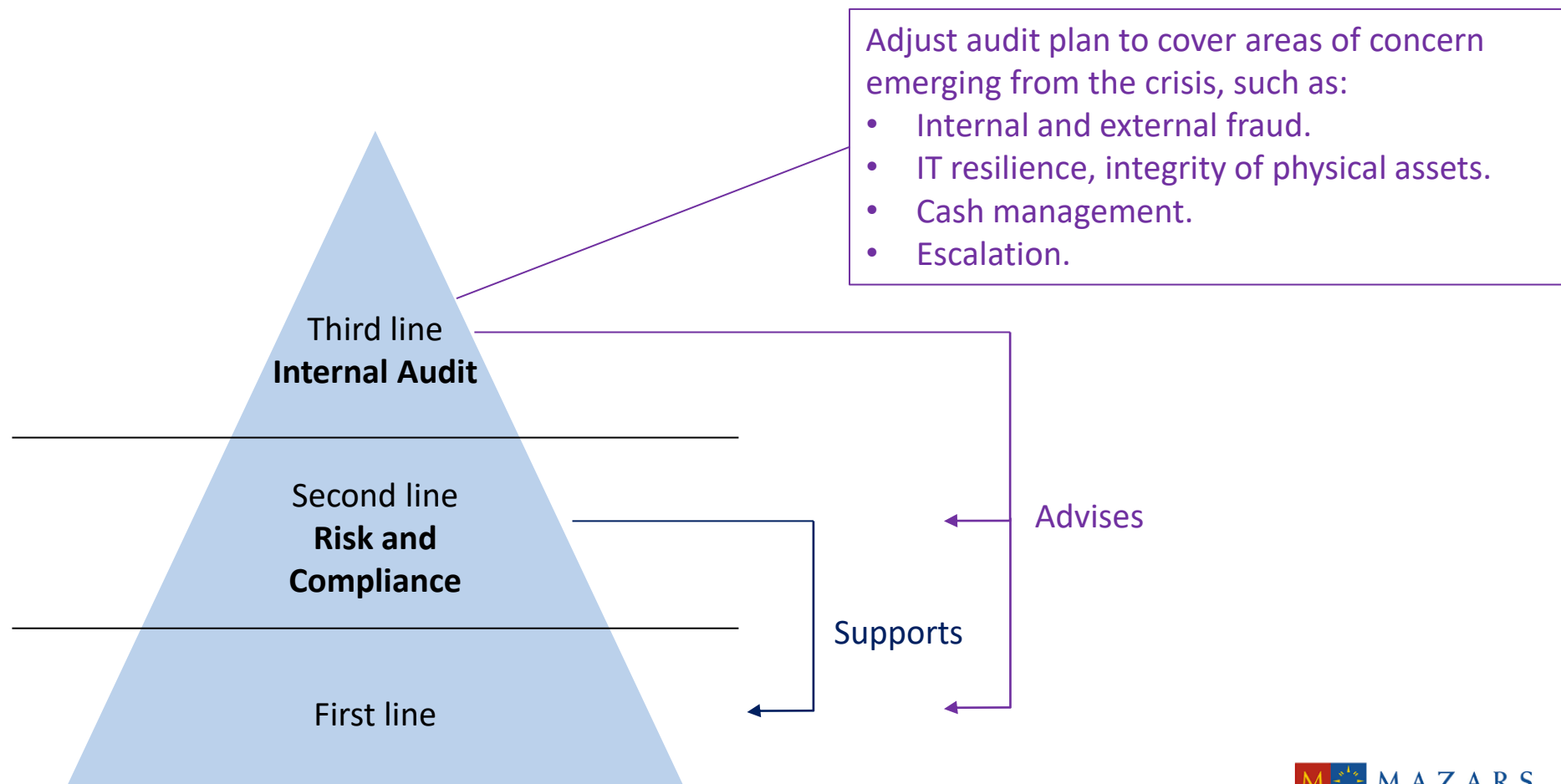


...but in addressing the “day after”, companies should use the opportunity to address societal goals such as gender diversity which will contribute to company reputation and buttress its “licence to operate.”

The day after will see these trends accelerating.

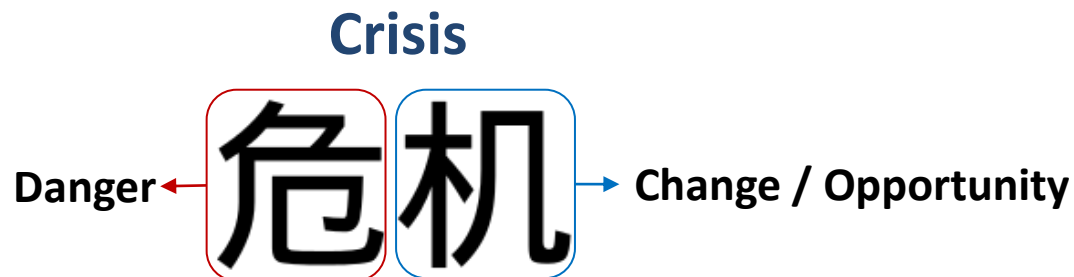
What does the crisis mean for corporate governance?

5 Adapting the control framework



What does the crisis mean for corporate governance?

6 Seizing opportunities



Catering for new needs

Envisaging new collaborations

Reshuffling geographies

Planning for the next crisis

The day after: Seven perspectives for developing a post-corona strategy

1 Interconnectedness

- Reconsider domestic aspirations and revisit international ambitions.
- Secure supply lines and review “remote” funding.
- Increasing focus on the “S” of ESG. Will E matter as much?

2 Macro-political economy

- Debt overhang and asset quality.
- Possible surge in inflation.
- The impact of state support on markets.
- More onerous taxation?

3 Perceptions of risk

- Availability bias.
- Risk aversion – appetite, behaviours.
- More reliance on retained earnings.
- Shrinking credit availability.

4 Consumer preferences

- Health considerations altering product demand and distribution patterns.
- The new frugality.

5 Accelerating technology

- Opportunities or threats?
- Possible governance improvements through new technologies - including maximising inputs from expertise located outside the country.

6 The future of work

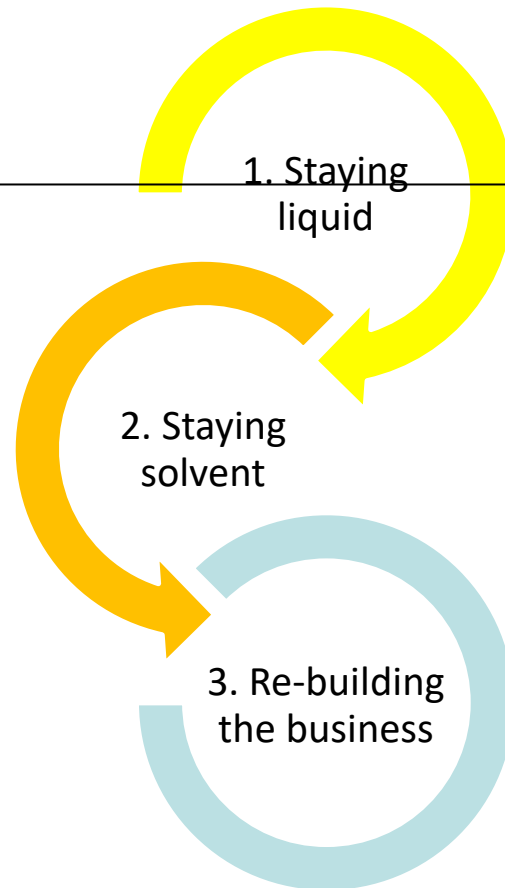
- Remote / distributed working: significant impact on many sectors (e.g. commercial real estate, related services, education).
- Increased automation and robotization.

7 The role of the state

- Bigger state looming:
 - Threats and opportunities.
- Will state presence lead to an uneven playing field in our business?

The day after: The three stages of the crisis

Status today



STAYING HEALTHY

Relevant website resources



- **Stilpon Nestor** (2020), [Boards and the virus: seven perspectives on the day after](https://www.nestoradvisors.com/var/files/pdf/LettersTrenches/LT_Boardsandthevirus.pdf) [Available on: https://www.nestoradvisors.com/var/files/pdf/LettersTrenches/LT_Boardsandthevirus.pdf].



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Selected Sources



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Thank you



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