

The Role of the Board in shaping a resilient future for the next-gen organization



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The need for resiliency

At the start of the decade, one did not foresee that the first reported outbreak of the COVID-19 virus would result into a global pandemic and further cause catastrophic damage to the global economy. Even World Economic Forum's Global Risk Report for 2020 highlighted the risk from infectious diseases to be low on

likelihood and average on impact¹.

Six months on, the virus continues to spread across the globe, with increasing fatalities and collateral damage to the economy due to government responses in order to contain the pandemic. Consequently, the International Monetary Fund estimates the World GDP to contract by 4.9% in 2020², which is significantly higher than the forecasted contraction of 1.3% during the Financial Crisis of 2009³.

Whilst the current crisis is of an unprecedented scale, organizations in the past have faced several shock events such as natural crises, socio-political events, wars, and cyberterrorism, all of which have threatened the survival of even some of the best managed companies globally. It is therefore imperative for organizations to continue to be able to withstand global shocks in order for their financial statements to be audited and analysed as those of a "going concern" – an underlying assumption in the domain of financial accounting.

Making operational resilience a strategic priority

The initial round of lockdowns enforced by governments across the globe served as a litmus test of the pre-existing resiliency protocols and strategies implemented by the lockdown impacted firms. A major lesson learned during the first round of lockdowns was that Boards and Senior Management should make operational resilience a strategic priority.

As governments relax lockdown restrictions to minimize economic impact, COVID-19 continues to spread within our communities. Therefore, firms will need to be prepared for frequent short term restrictions in the near future. Boards and Senior Management will have to deal with the challenge of managing the impact of COVID-19

crisis and on the other hand, be agile enough to plan for future and make strategic choices for sustainable growth.

Bringing agility to Board practices

Given the current situation and in order to be prepared for future shocks, the Board will need to ensure that it is able to maintain a balance between ensuring sustained growth and the need to pivot strategies in the event of systemic shocks. Envisioning the role of the Board whilst being cognizant of the lessons from the current crisis provides us with an understanding of the "cues" for the role of an agile Board.

Cue 1: Skill set – Digital Transformation

As the world returns to a "new normal" there will be need for skills different from existing ones at all levels. Boards should quickly identify an array of such new skills, particularly at Board level for the immediate and distant future basis strategic choices the company makes. Digital transformation is expected to drive different ways of getting work done. In this context, skills pertaining to cyber security and digital transformation will equip members of the Board in navigating through the virtual waters developed and established within the new normal.

Robotics, artificial intelligence, virtual reality, autonomous systems, the Internet of Things, nanotechnology, big data, bio technology, new energies, and other related developments are driving breakthroughs at every organization and at every level⁴. Board members will not only have to understand but also improvise their skills in this domain in the continued interest of the organization. In doing so, members should seek to incorporate trends pertaining to these topics into discussions on strategic issues at the Board level⁵.

Discussions at the Board level should focus not only on the applicability of these technology enabled breakthroughs to the organization's business and strategy, but also on the interplay of each of these topics in potentially posing as threats to the organization's sustained growth.

Cue 2: Practices – Diversity and Inclusion

The COVID-19 pandemic has transformed people's habits towards and expectations from their workplace. Boards should aware of these evolving business dynamics and make room for such diversity of thought to build a culture of trust in the organization. In order to benefit from the results of diversity at the Board level, it is imperative that organizations consider the concept of "productive diversity" as one which consists of diversity in skillsets, experiences, and background⁶.

From a gender perspective, in 2019, women representation on corporate Boards was 20% and India ranked 12th globally in this regard. Progress to bring women into corporate Boardrooms has been slow, but it has been increasing steadily across the corporate world. Given the extensive focus on digital skillsets in the post-pandemic world, Boards will be required to answer critical questions such as: to what extent has the Board created an environment to foster greater diversity and inclusion on the Board? Does the Board, the executive team, and workforce have the right skills and experience to face complexities from the future, be it regulatory or legal matters?

Availability of diverse skillsets, thought processes, and experiences on the Board as well as their inclusion into the organizational ethos will enable the Board to pivot strategies from those of growth to those of sustenance in times of need.

Cue 3: Attention – Risk Management

As crisis situations uncover weak spots in the organisation's operations, these weaknesses, and surprises should be discussed in a transparent and constructive manner. Biggest benefit of any crisis of current magnitude is that everything has to be re-examined. When survival is at stake, the Board's skill in challenging everything, will help identify and improve way forward. In particular, attention to liquidity, renewed compliance and oversight framework, preservation of

culture, redefined risk management and stakeholder engagement are areas which are likely to attract Board's attention. The Board, will therefore play a crucial role to better prepare for the future.

Cue 4: Resolve – Commitment

Boards should start playing a key role in shaping future of the organization. As the COVID-19 pandemic comes under control, the Board can start providing impetus to the future of the Company. In this role, it should help management in developing strategy, choices they have to make and implement. Its role should not be restricted to merely approving, overseeing or monitoring implementation of strategy. The Board has substantial independent experience, which will be valuable in strategic decision making. Uniquely positioned in being away from day-to-day operations, Board members should bring in "revolutionary thinking" to strategic choices, embed sustainability in strategic decision making, and ensure continued commitment towards developing the organization's capabilities pertaining to operational resiliency.

From the above, it is clear that Boards' responsibilities will significantly change as compared to the pre-pandemic era, as a response to ensuring resiliency across the organizations. However, Boards' functions with respect to oversight and challenge of Senior Management's actions will continue to set the standard for success in bringing agility in Board Practices.

¹ http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

² <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

³ <https://www.imf.org/external/pubs/ft/weo/2009/01/>

⁴ "Corporate Governance 4.0 – The forward looking Board of Directors" – Deloitte SA

⁵ *ibid*

⁶ *ibid*