



# Boardroom insights

**Board Leadership Center (India)**

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# Introduction

At KPMG in India Board Leadership Center (BLC), it is our endeavour to champion outstanding governance to help drive long-term corporate value and enhance stakeholders' confidence in capital markets. We have been able to achieve this objective through the collective wisdom of perspectives gathered from the board member community, combined with KPMG in India's insights.

Since the COVID-19 pandemic hit our country, a lot has indeed changed – few things have changed forever, and others, perhaps for a short while.

Between April 2020 and middle of September 2020, we conducted

a series of virtual meetings with senior and experienced boards of directors. This document captures key themes which emerged in our conversations. We have also taken the liberty of highlighting areas, which we at KPMG in India believe are important and critical for the long-term and have been relegated to the background.

Overall, the current crisis has brought a new level of intensity to board's oversight role. Ensuring employee safety, preserving cash, drawing short-term and long-term strategies were seen to be the foremost priorities of most organisations.

Drawing on insights from our discussions, we have categorised the priorities across six major themes:



**Role of board of directors**

**Digital agenda**

**Planning for the long-term**

**Addressing risks associated with remote working, including cybersecurity**

**Need for reassessing the business plans, including underlying processes**

**Other matters for consideration – KPMG in India's perspectives**

# 1. Role of board of directors

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Understanding the impact of COVID-19 on the company, and the ensuing management response, is prompting directors to rethink how they exercise their oversight role. Today, directors have become more engaged in discussions with the management on topics which may not have as prominently featured in the past, such as employee safety, cash preservation, staff

retention/redundancy plans, labour mobility, digitisation, and supply chain realignment. At the same time, areas which were always regularly looked at by board members, such as scenario planning, business plans, review of financial performance – these are now being reviewed with a different rigour.

## Frequency of board meetings

Post March 2020, we noted that a few boards are meeting more frequently than earlier, and there are large number of boards where there is no change in the frequency in how often they get together. It is interesting that there is no clear pattern emerging to link the frequency of board meetings to (1) size of the company, (2) sector, (3) digital maturity and (4) region.



## Agenda of the board

Interestingly, board meetings have had a mixed agenda – besides the usual board matters, an equal number of boards are getting regular updates on COVID-19 response, whilst others have left it to the management to deal with the COVID-19 addressal mechanisms. Here we notice that boards with members who often serve on multiple boards, have been more demanding in terms of regular updates from management on their COVID-19 response as well as preparedness for the future.



## Effectiveness of virtual meetings

Not surprisingly, attendance at board meetings has improved as board members don't have to travel and there are lesser conflicts in the calendars. A number of board members indicate that the quality of conversations is just not the same as is the case with the face-to-face meetings. Whilst the board members have had to adapt to virtual meetings, and an overwhelming majority see this continuing as the 'new normal', almost everyone still wants face-to-face meetings to resume. Board members indicate that face-to-face meetings offer higher quality conversations/debates, better interface with the CEO/CFO, and that there is no substitute for 'small, in-between break, conversations' which often offer many insights which are not available in board documents. Most directors were of the view that work-from-home will continue in a hybrid form since complete work-from-home is not a sustainable model.



## Adopting digital in the near future

Board members are anticipating that in the future they could be adopting digital technology to conduct board meetings and that this will allow quick decision making. However, effectiveness of such board meetings will depend on how often people interact in a physical setting, how meetings are structured keeping in mind all the statutory compliances, and whether longer duration meetings will give way to more frequent meetings of a shorter duration.



## 2. Digital agenda

Board members indicate that most of the organisations have adapted to the evolving technological landscape and have fast tracked their digital agenda, most of which is focused on connecting with customers and connecting with employees. Here we notice that companies which were ahead in their digital initiatives, are now reaping the benefits, and the others are slowly catching-up.

Boards emphasised that agility has been an enabler for responding to this pandemic. Chief Digital Officers (CDOs) and Chief information Officers (CIOs) responded to the situation and IT teams increased productivity at a pace and scale never seen before and introduced digital solutions to ensure seamless collaboration and connectivity. This has led to organisations covering their long overdue digitisation and automation journey in a matter of a few months – this is a journey and will continue, albeit now at a faster pace.



# 3. Planning for the longer term

By end of April or middle of May 2020, boards and business leaders started thinking about their medium to long-term strategies, beyond the response to pandemic.

## Diverse perspectives

Promoter-led organisations are increasingly focused on inducting independent directors with specific professional experience and background. One reason for this shift in mind-set could be the need for diversity of skill sets/perspectives on the board which could indeed help the organisation plan better for the future.



## Role of committees

As the pandemic hit, few organisations formed special committees and teams to focus on the crisis response plan. With a few organisations, even board members were part of such committees and the board members provided critical insights to the management.



# 4. Addressing risks associated with remote working, including cybersecurity 1/2

A rapid shift to remote working has raised new set of challenges for organisations. A vast majority of directors are concerned with the risks associated with remote working. Few directors have also

raised concerns around remote working like onboarding of new employees, continuous training/upskilling, building/maintaining company culture, and monitoring the productivity of employees.

## Cybersecurity

Majority of directors indicate that the number of cyberattacks on their organisations have gone-up in the last few months. Overall, the directors remain concerned with their organisations' preparedness to handle a cyberattack. Working-from-home has made organisations even more vulnerable to cyberattacks– whilst the underlying processes have changed overnight, the controls have not kept pace.



## Data privacy and confidentiality

When working from home, a vast majority of employees do not have a separate working space or a secluded area. At home, the working space is likely to be shared with a family member, or friends, or people sharing an accommodation. This poses a threat to confidentiality of data and information and increases risk of a security breach. Hence, there have been discussions between boards and management emphasising the need to relook at HR policies, manuals and employee contracts.



## 4. Addressing risks associated with remote working, including cybersecurity 2/2

### Focus on the health and safety of employees

Majority of board members are concerned about employees' health and wellbeing. Common concerns expressed by board members include:

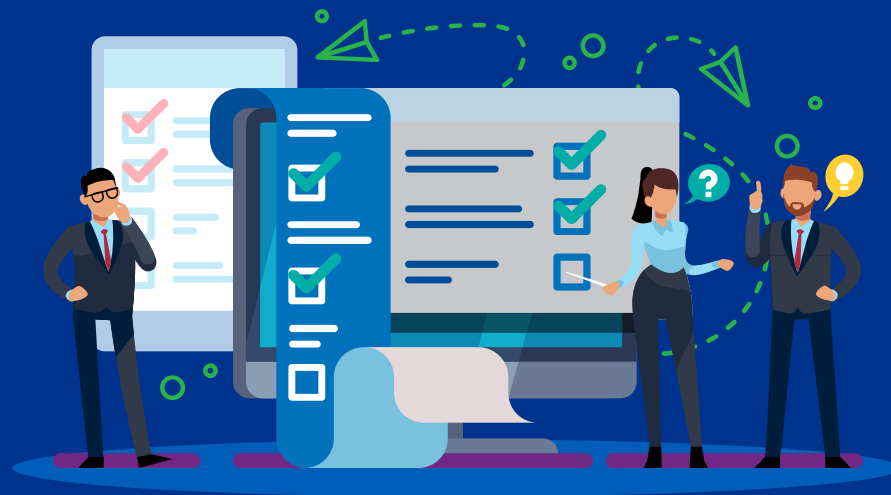
- **Risk of isolation:** employees feeling socially isolated because of lack of in-person interactions
- **Enhanced risk of infection:** with organisations having little choice but to open their facilities, offices or otherwise, there is an increased risk of infection. There is also related concern around shutdown of premises, should a COVID case be identified
- **Increased burden on women workforce:** there is an increased demand on working women to carry on with their domestic chores, whilst balancing work expectations. Directors believe there is lot of anecdotal evidence which indicates that working women have been more negatively impacted during the pandemic.



# 5. Need for reassessing the business plans, including underlying processes

In the initial phase of the crisis, organisations were focusing on survival, cash preservation, resilience and optimising costs. In our discussions with board members, specifically the members of Audit Committees, most of them indicated that the fight for survival pushed internal audit to the background.

- Directors are concerned that internal controls and automation haven't kept pace with the change in business processes, specifically with the fast tracking of the digital agenda
- There is overwhelming evidence from the past that internal control failures are most likely to occur in times of crisis
- As organisations resume work and redefine their business models, directors are ensuring that internal audit plans get refocused for sustainability and growth of organisations.



As the pandemic continues, and whilst the management focuses on business continuity and smooth operations, boards should start to deliberate on other important matters, which have long-term benefits.

### Environmental, Social and Governance (ESG)

Most of the directors indicated 'no to low' conversation on ESG. Are organisations missing the opportunity to incorporate sustainability as a tool to manage risk and create long-term value? Another related concern is around the role of organisations in addressing climate change and how the current times could be utilised to one's benefit. A focus on climate change and sustainability is the new groundwork required to build a better future and a profitable business model.



### Changing risk profile and Enterprise Risk Management (ERM)

Assessing risks and developing a response plan becomes even more important in the constantly changing business environment. Monitoring and mitigating potential risks and threats must be the cornerstone of discussions as organisations plan for the 'new normal' as well as growth. Some of these risks include workforce risks (including remote working), supply chain risks, compliance risks, and financial risks (balance sheet resilience).



## Some other matters to consider:

- **Succession planning:** high dependency on key management personnel and emergency succession planning. This is pertinent for senior management, board members and key middle management personnel
- **Capital:** financial performance, specifically liquidity and capital reserves. Also, it is time to ponder whether Corporate India has relied too much on debt as a financing mechanism
- **Evolving business model:** change in strategy and business model, specifically to focus on 'value adding' activities
- **'Gig economy':** interestingly, this matter does not feature much in conversations, even though an increasing number of organisations are exploring avenues to lean on the gig economy. This can help organisations provide flexibility in the workforce, without adding a permanent layer of cost
- **Business continuity:** relook at business continuity plans, specifically 'resilience'. 'Resilience' will include not just the ability to withstand a pandemic but a more detailed preparedness, which will include capital, workforce, physical facilities, supply chain, digital preparedness, control mechanisms, regulatory compliance and much more
- **Data and analytics:** whilst the pandemic has forced every organisation to embrace digital in many ways, there is surprising lack of as much focus on exploiting 'data assets' which are readily available with most organisations
- **Automation and IOT:** whilst relevant for many industry sectors, this theme is particularly relevant for the manufacturing and logistics sectors
- **Productivity:** over many decades, Corporate India has lagged many economies in enhancing productivity. Could this pandemic offer an opportunity to focus on productivity and make a leap?
- **Supply chain:** whilst organisations rushed to respond to the pandemic, and work out alternative sources of supply chain, a big question remains whether the organisations are planning and preparing for the long-term?

In consensus, directors agreed that the post-pandemic 'new normal' is not expected to be the same as pre-March 2020. COVID-19 has highlighted the need to be agile and challenge the status-quo. Organisations adopting these simple tenets could emerge stronger than ever in the times to come.



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