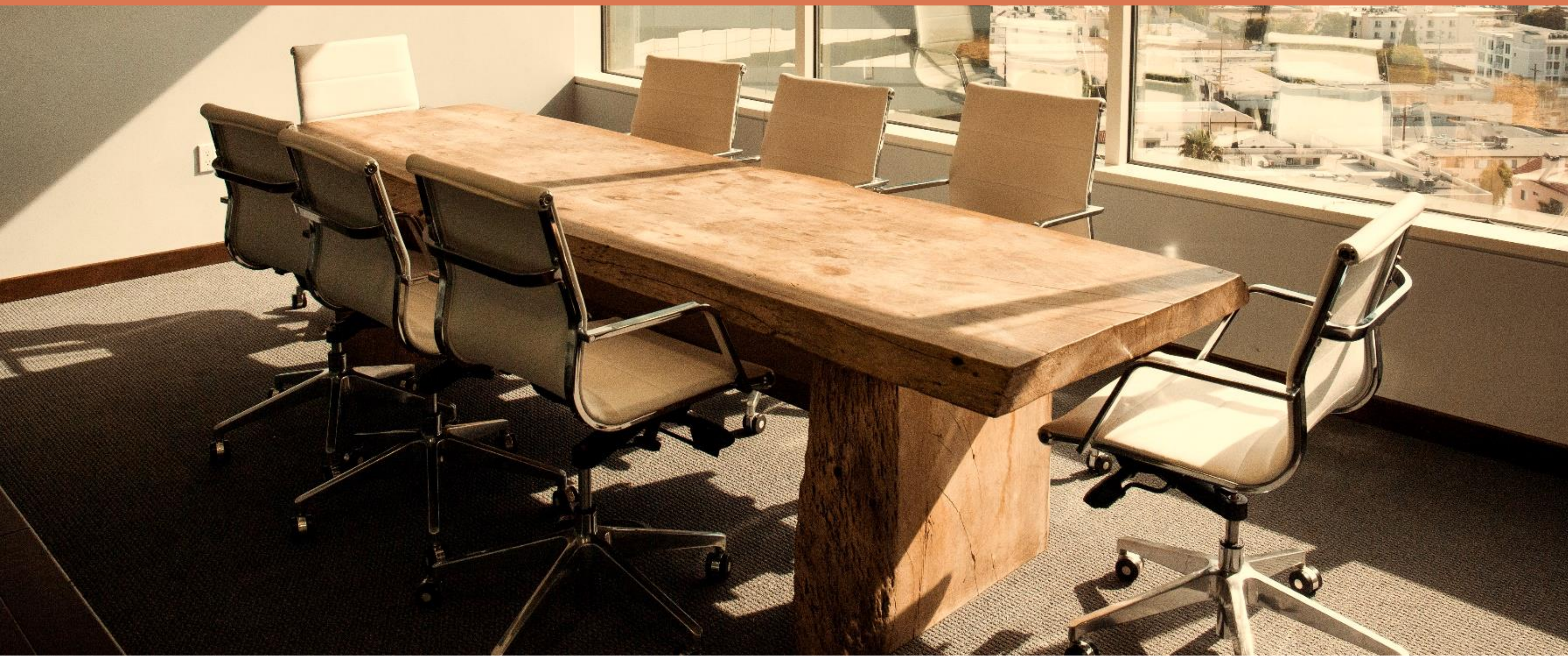

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BOARD STRUCTURE FOR CRISES TIMES: A CHANGE OF ROLES

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Companies operating in Myanmar undergo a rapid development ever since the opening to the world economy. Catching up to international standards is on the agenda of many organizations, but often hindered by externally inflicted crises such as natural disasters or political instability. Strong leadership in difficult times is essential to grow a business and make it thrive over a long period of time. The board of directors can directly influence which path a company takes during a crisis and how it channels its assets and networks. This requires a conscience awareness of how the board is composed and which role it plays when push comes to shove. Pre-defined crisis management plans, a balanced-board, and sufficient information supply frameworks play a crucial way in weathering economic and natural turmoil.

THE BOARD'S ROLE TO PLAY

A crisis does not mean that there is a bad day in the office; a crisis can affect multiple levels of a company, such as a company's value and reputation or even its very existence. It will always require an executive-level response, a so-called board or committee of the board. Under such circumstances, board members are often challenged in ways that may be unfamiliar to them as they are drawn into a more active role.

Based on MIoD's certified members' experience sharing, the frequency and velocity of crises is growing. The last decade alone has brought us the banking crisis, political transformation, Cyclone Nargis, trading policies changes, and not to mention high profile governance failures. These similar kinds of crises will be happening in this increasingly volatile environment, speeded up by climate change. It is no longer possible to simply say "this crisis may not relate to our type of business" or "ya par tal!".

During this COVID-19 period, scholars and business operators keep questioning how was high-level leadership of the company involved with crisis handling and its organization? How and when was the board involved?

The board of directors is an essential element in corporate governance. It has an imperative duty to ensure organizations have an appropriate corporate governance structure and culture. The fiduciary duty inherits that decisions are made to the benefit of the whole company its shareholders, and ideally to the benefit of all stakeholders.

The board of directors is the trustee of the shareholders' interest and is charged with fiduciary responsibility. In the context of corporate governance, the meaning of fiduciary is unwavering, trustful, undoubting. Failure of such often leads to significant operational losses and missed opportunities; and materializes on the (triple) bottom of a company. Boards are responsible for safeguarding the corporate governance and viability of the organization. How crises are handled are, thus, a central preoccupation for the board of every organization, regardless of the size and local, regional, or global focus.

If the frequency and velocity of crises are increasing continuously since many years, why do boards still struggle to be prepared?

THE IMPORTANCE OF SUFFICIENT INFORMATION SUPPLY

A board is only able to make educated decisions based on the information it is supplied with. Insufficient information supply is a key challenge to this. Reports and data are generated in the course of daily operation, usually under the supervision of senior management. CEOs and managers, who are in contact with the operations team on a daily basis, have an information advantage over the board and are gatekeepers on which information will be forwarded and presented to the board members. This poses a potential threat as the top management is usually compensated on measurable key performance indicators. In Myanmar particularly, where many companies still operate on manual data collection and lack digital infrastructure such as Enterprise Resource Planning software or Customer Relationship Management systems, senior management has an increased influence of the accuracy of supplied information.

Secondly, board members are in a difficult situation to evaluate which information is relevant and indicates risk. When China first reported the cluster infections of COVID-19 to the World Health Organization in December 2019, it was not yet foreseeable how this information will influence companies, especially those not related to the healthcare sector or not operating internationally. Most boards make decisions based on their limited knowledge received from outside of board rooms. Mostly top executives convince the chairman of the board or board committees of a deal's value and together they set out to convince the remaining board members. CEOs present only facts that supported the deal without adding out-of-the-box thinking related to risk mitigation.

> **If we are all in agreement on the decision – then I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about.**
>
> \- Alfred P. Sloan (1875 – 1966)

Thirdly, board rooms often decide their deals before inclusive discussions, and make business cases based on older assumptions of the way of doing business. Board members and specific committees too often rely on a person or a single source opinion as a trusted expert. Over the positive assumption, they identify some obvious risks, but patiently assure the board that executives understand those risks and would have them all under control and well monitored.

BOARD COMPOSITION AS A RISK MITIGATION TOOL

Who serves on an organization's board plays an important role in the ability to monitor and offer support to the management, regarding risk mitigation and risk policies. It influences how information is requested, processed, and interpreted. A well-balanced board is more likely to identify risk earlier and make strategic decisions that prepare an organization for the future, or immediate disruptions. Key parameters for board composition are board size, the number of independent directors, and age heterogeneity.

Board Size

How many persons should serve on a board differs for every organization, but it has shown that having between 7 to 14 people sitting on the board of directors lowers the impact risk has on a company. More board members increase the capacity to monitor the company and understand the informational that is presented to them more effectively. Having too many people appointed as board members, though, inherits the risk for delayed decision-making as it is more difficult to find consensus. Globally, the number of board members averages around 9 –

which is a remarkably stable average over the years and across countries.

Bigger boards are usually found at large conglomerates and globally operating enterprises, such as Wal-Mart or General Electric (GE). The ideal number of board members is still an open question and there is no perfect answer to it. What is more important anyways, is not how many people serve on the board, but who serves on it.

Independent Directors

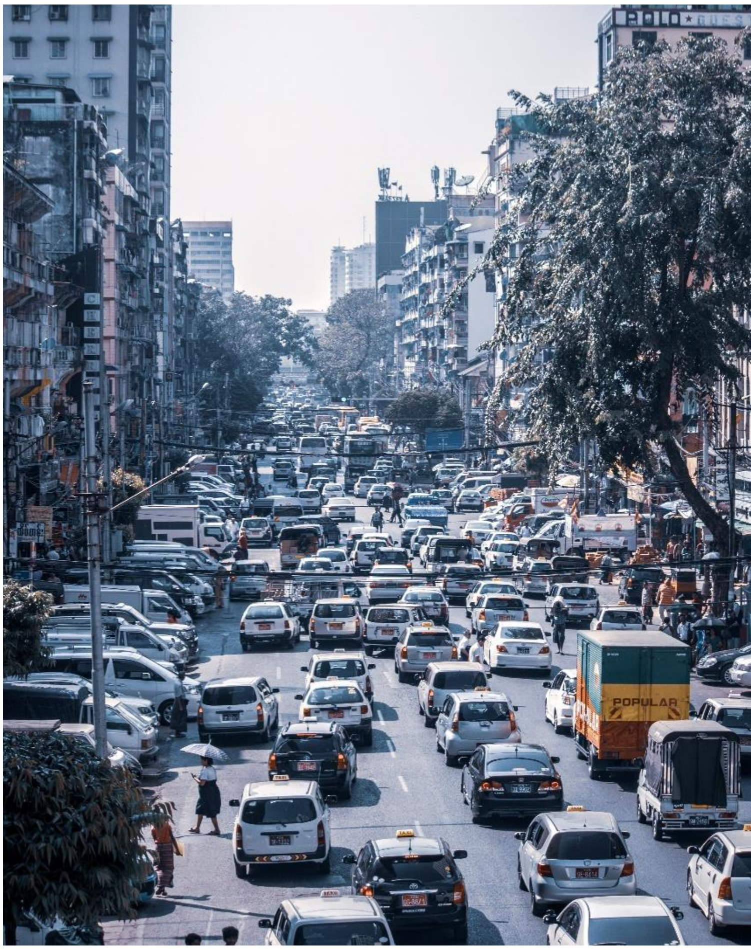
American energy company Enron Corp. melted down in 2001 because it lacked independent directors, and several are quite long in the tooth. Corporate boards have been shaken up and made over. In Myanmar it is mostly public companies that have more independent directors these days, and nearly all of them (up from roughly a third just a few years ago) have appointed lead or presiding directors to help ensure the board's vigilance in company affairs.

Independent directors are board members that are not employed, nor have material or pecuniary relationships to the company. They often come from different industries and have the function to bring in an outside perspective. Questions asked by independent directors might sound trivial to industry-insiders but can reveal fundamental misunderstandings amongst board members. Having an increased number of independent directors helps mitigating risk and avert crises. As they work in different industries, independent directors can enrich the board with creative solutions to current or future challenges. Their engagement with related stakeholders provides independent directors with a broader oversight over systematic risks and shifts across industries. An increased number of independent directors is a good assessment tool to evaluate information presented to the board and compare it to relevant metrics from their respective industries.

Furthermore, independent directors have a higher motivation to monitor the company, since they face an increased reputational risk by leading companies outside their specific industry. Mismanagement and maladministration of a company will affect his/her reputation in this industry, as well as the industry the independent directors originate from.

Age Heterogeneity

This parameter refers to the age difference between the youngest board member and the oldest. A certain degree of experience is required to be a good board member. In the fast-changing economic environment of Myanmar, age does not necessarily translate into wisdom. Business models and consumer behaviour change rapidly, and the younger generation is keener to keep up with the change. A balanced board consists of different generations that, in crisis times, combine the experience and wisdom of older generations with new ideas and practices of the younger generations.



THE ROLE OF RISK MANAGEMENT COMMITTEES

The bankruptcy of Lehman Brothers Holdings Inc. is a prominent negative example of information processing failure. Lehman Brothers was a financial services firm investing in high-risk real estate mortgages. The company went bankrupt in 2008 due a drastic devaluation of invested assets. Stakeholders that signalled concerns about the high leverage risk this investment strategy inherited, included shareholder of competitors, the Securities and Exchange Commission, and selected government departments of the United States. Yet, concerned stakeholders had no systematic way to reach the board of directors of Lehman Brothers Holdings Inc.

A risk management committee is a dedicated workforce compiled of board members that are experienced in risk management. The committee's main duty is to oversee risk policies and risk management practices of the company. It is further in charge to monitor systematic risk inside and outside the industry, as well as global risk such as the COVID-19 pandemic or a financial crisis.

When a crisis scenario emerges, board members, who are responsible for the well-being of the company, must display their care for each individual inside and around the organization. That includes daily conference calls and engagements with all levels of the company. Such occurrences could turn out to be the most important engagements a person has during his or her tenure. To make a smooth transition from a monitoring board member on observation and advisory duty, to an active board member executing tangible actions, a Crisis Management Plan is required in any organization, so that it could answer before the crisis causes too much damage.

Crisis experience may not be a key requirement when companies and shareholders place board members, but it is in these situations, where good boards can have an impeccable impact on the company and develop a truly board-driven competitive advantage.

The chair of the risk management committee must make sure that information provided to the board is trustworthy, reliable and actually reaches the board room. This includes fostering relationships with stakeholders, especially those that have an interest in the success of the company. A functioning risk management committee is responsible that critical information can reach the board room from either insiders or from external sources.

Myanmar is a country that is especially exposed to a multitude of risks. The recent opening and fast development of the local economy causes a rapid change in business models and consumer behaviours, as well as a dependence of trade activities with neighbouring countries. Political instability and natural disasters pose further risks that can disrupt a company's operation with little to no warning. A well-balanced board and active risk management committees are proven measurements companies can apply to avoid or mitigate disruption as much as possible.

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