MYANMAR INSTITUTE OF DIRECTORS JULY 2020

# COVID-19 SURVEY: CORPORATE GOVERNANCE PRACTICE DURING A PANDEMIC

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**For two weeks in May, the MIoD surveyed Myanmar companies about the impact of the COVID-19 pandemic on their business and to analyse which actions were taken on board and leadership levels. A total of 74 companies participated and revealed that the impact on the supply chain and customer demand was less severe than expected. However, many organisations suffered on a financial side from losing cash flows and liquidity. The board structure of companies lacks international standards in some regards but shows promising tendencies. The disruption due to the COVID-19 pandemic revealed weaknesses in corporate structures and marks an opportunity to re-engineer companies to be more crises resistant in the future.**

# INTRODUCTION

As a last frontier market, Myanmar is a resource rich country with a booming economy since the opening about ten years ago. With gross domestic product (GDP) growth rates of well over 5%, the country was on the fast track to catch-up to international standards and leap-frog technological developments. Labour intensive manufacturing and trade of agricultural products count to the biggest economic drivers, next to extraction of natural resources such as oil & gas and coal. With the first spread of the COVID-19 virus in December 2019, and the World Health Organization's declaration of a global pandemic in March 2020, almost all business sectors experienced a disruption within their operations and supply chain. Being exposed to an abrupt drop in demand, and following strict government orders, most organizations were not able to continue operations and now fight for their survival.

Corporate governance describes all mechanisms and frameworks on which a company is led, controlled, and operated. Having a strong corporate governance structure implemented provides robust guidance and allows to not only to analyse risks and the probability of disasters, but also pro-actively develop risk avoidance and risk mitigation procedures. Though no company could anticipate a crisis as disruptive as COVID-19, sound corporate governance practices allow companies to reduce crisis impact, approach arising problems in a systematic way, and follow a clear path to adapt to the new normal.

This survey has the purpose to analyse how prepared Myanmar companies were on board and leadership level, and which immediate actions were undertaken to react to the COVID-19 pandemic. Over the course of two weeks in May, a questionnaire was sent out publicly and via email to collect answers regarding organizations' board and leadership structures, board activity and composition, the impact of COVID-19 on the business, which immediate actions were undertaken, and how companies plan to prepare for future crises ahead. A total of 74 responses were collected.

## SURVEYED ORGANISATIONS

The majority of responding companies are considered to be small- or mid-sized enterprises employing between 6 to 500 people *(see chart 1)*. The banking and finance industry is most represented with 21 companies operating in that sector, while companies from manufacturing, retail, and trade are the second most represented organizations with 18 respondents. *(see chart 2)* We recognize a lack of agricultural participants in that survey, a sector which employs 50% of the work-force[1], but only marginally contributes to the economy's growth[2].

Out of the 74 questioned companies, 44 are privately owned, 11 are either state-owned or strongly related to the government, and 8 represent non-profit organizations or non-government organizations. Companies operating. *(see chart 3 below)*

Though this survey does not claim to be representative for Myanmar's economy, the participations' characteristics reflect the typical business landscape in Myanmar which is dominated by small- to mid-sized (family) businesses and where some industries are structured

Chart 1: Number of employees
(n=74)

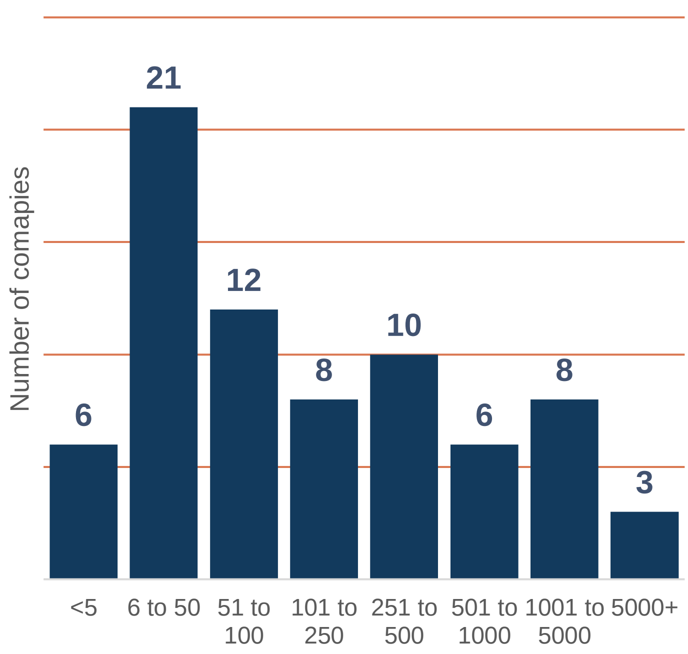
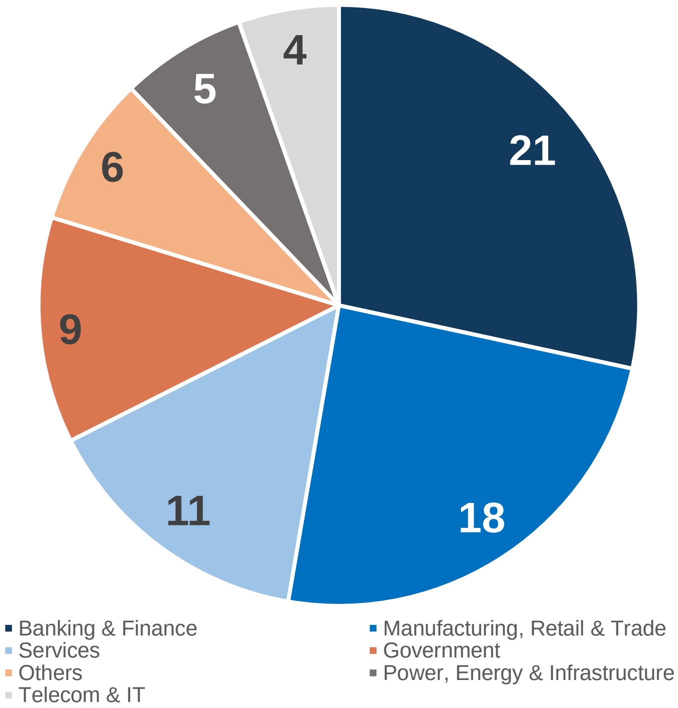



Chart 2: Represented industries
(n=74)

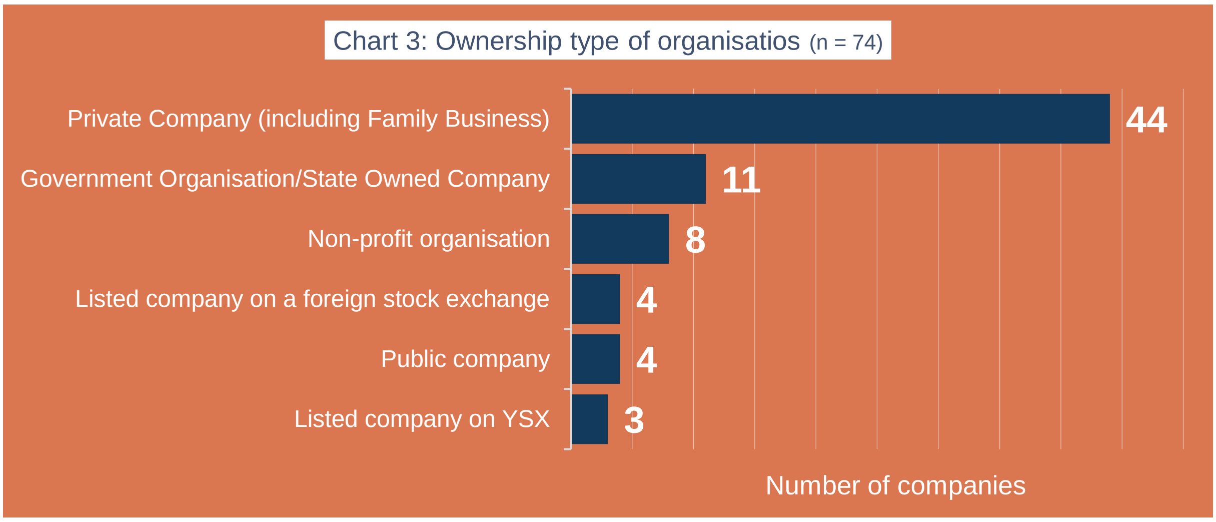



[1] World Bank, 2019

[2] Ministry of Planning, Finance & Industry, 2019

according to state-owned companies from pre-democratic eras.

Although corporate governance is often associated with the private sector and profit-seeking ventures, it is as relevant and important for the Government of Myanmar, government-related companies, and non-profit organisations. Especially in a country that receives a significant amount of international economic development fund, it is crucial for all organizations, profit-seeking or not, to follow laws and regulations and practice good corporate governance.




## IMPACT ON OPERATIONS AND FINANCIALS

The impact of the pandemic on operations are less severe than we expected. Some sectors have struggled particularly hard, namely the manufacturing sector which was hit twice. During the beginning of the pandemic, companies faced challenges receiving raw materials from China to process orders from Europe and weren't able to fulfill scheduled orders or meet deadlines. When Europe became the epicenter of the pandemic in the spring of 2020, the demand dropped abruptly and orders were cancelled. Garment factories, for example, had to store purchased raw materials in warehouses, even though their business is concentrated on low inventory and timely export of processed products.

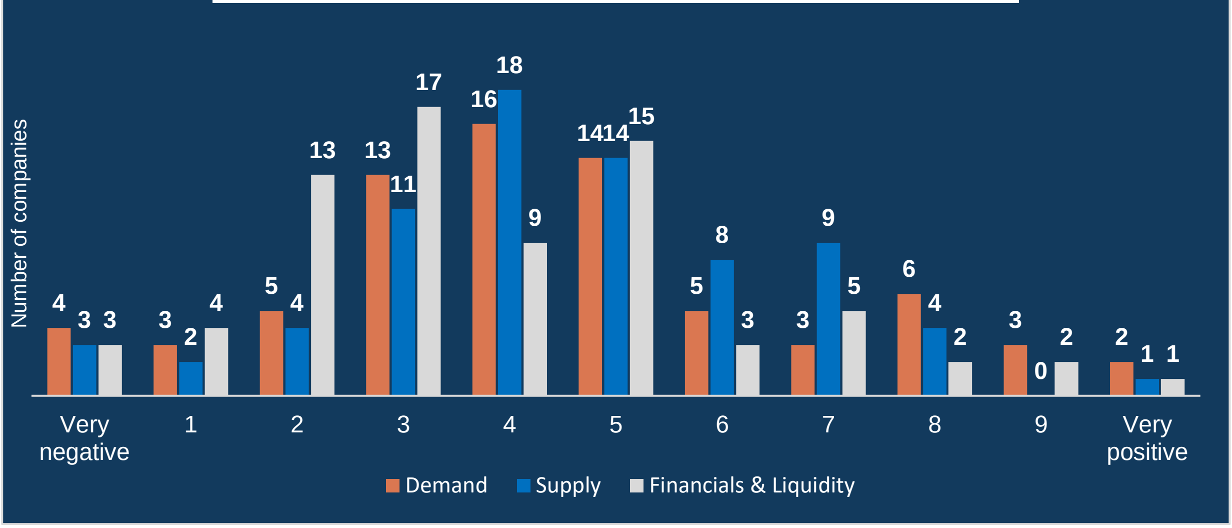
There have also been beneficiary industries that experienced a short-term increase in demand as consumer behavior shifted in response to lock-downs and new hygiene policies. Next to food delivery companies, the newly opened insurance market saw an up rise of demand. Financial institutions, especially micro finance companies, where increasingly approached by companies that need bridge-financing, as they had cashflow shortages and started to see liquidity issues.

Overall, the survey results show a rather neutral impact of the pandemic on supply and demand. The biggest negative impact was related to financials and cashflow management. *(see chart 4 below)*

While emergency loans and short-term bridge financing are certainly necessary to ensure a survival of the crisis, the capital structure of an organisation is an area where boards, especially audit committees, can have a crucial impact on the competitiveness of a company. In evaluating how much cash is available at the moment, how are projects and investments financed, and how retained earnings are handled in prosperous years, boards can provide long-term advisory and prepare companies for less-prosperous periods such as the COVID-19 pandemic.

Through the survey we received feedback that cash management and cost reduction played a dominant role and led some companies to let go of staff or lower salaries. A contrary action was taken by a consumer goods manufacturer, that introduced special bonus schemes to award employees for their commitment and diligent contributions in this difficult work environment. While cost cutting and laying off staff might be a painful necessity to protect the overall business and ensure its survival, it should be the very last resort. Employees are one of the most important resources and a key

Chart 4: Impact on the supply chain, demand, and financials (n = 74)



success factor for long-term competitiveness. Companies spend time and money to train people, and eventually benefit from their knowledge of internal procedures, their commitment to the company, their network and skills they develop and that are individualized for their work within the company.

This company, like many others, probably didn't see an increase of demand for their products, but due to its robust capital structure was able to pay extra money to employees, while competitors saw themselves forced to reduce their workforce.

## RELEVANT QUESTIONS

1. How have we continued to stay informed over our key partners' recovery/responses throughout this period? And, is this part of any team's specific responsibility?

2. How can our existing products/services be modified to suit customers' needs during this period?

3. Have financial plans taking into account multiple scenarios been established? And, have assumptions to these plans been reviewed and challenged internally?

4. Towards what sort of initiatives can we allocate our idle personnel?

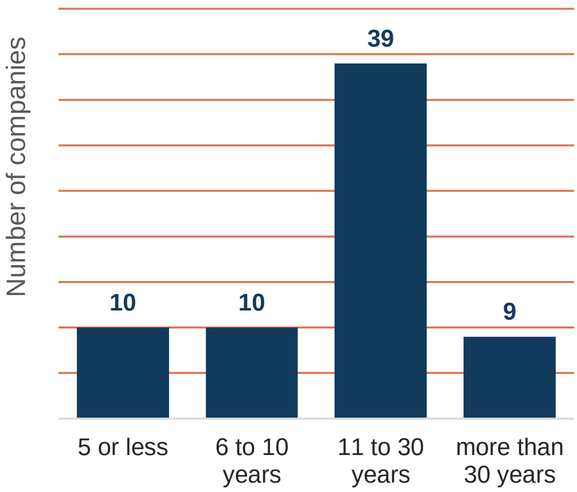
# BOARD OF DIRECTORS DURING A CRISIS

The board of directors is an essential element in corporate governance. It has an imperative duty to ensure organisations 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. Who serves on an organisation'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 organisation for the future, or immediate disruptions.

How many people serve on a board varies from company to company, and industry to industry. The mostly observed board size across the world averages around 9 to 12 board members.

The average number of board members form this survey is 6.6 *(Chart 5)*, and therefore below the global average. However, the graph shows a skew towards 9 to 12 members, indicating that Myanmar companies are catching up to international standards. Small boards, or boards in general, in

Chart 6: Age-difference between the oldest and the youngest board member
(n = 68)




Myanmar are often composed of family members, or people closely related to the family. Chart 6 illustrates the age difference amongst people serving on the board. The big spread between 11 to 30 years is a positive sign, that boards are not an old-men's-club but accept multiple generations into leadership positions. As more than 90% of companies in Myanmar are family-owned and family-run, the results indicate that boards are composed of the first generation – the parents who founded and built the company – and the second generation – their children who step by step take over leadership positions and serve on the boards.

## RELEVANT QUESTIONS

1. What processes and career tracks do we have that prepare our senior staff for serving on our board in the near future?

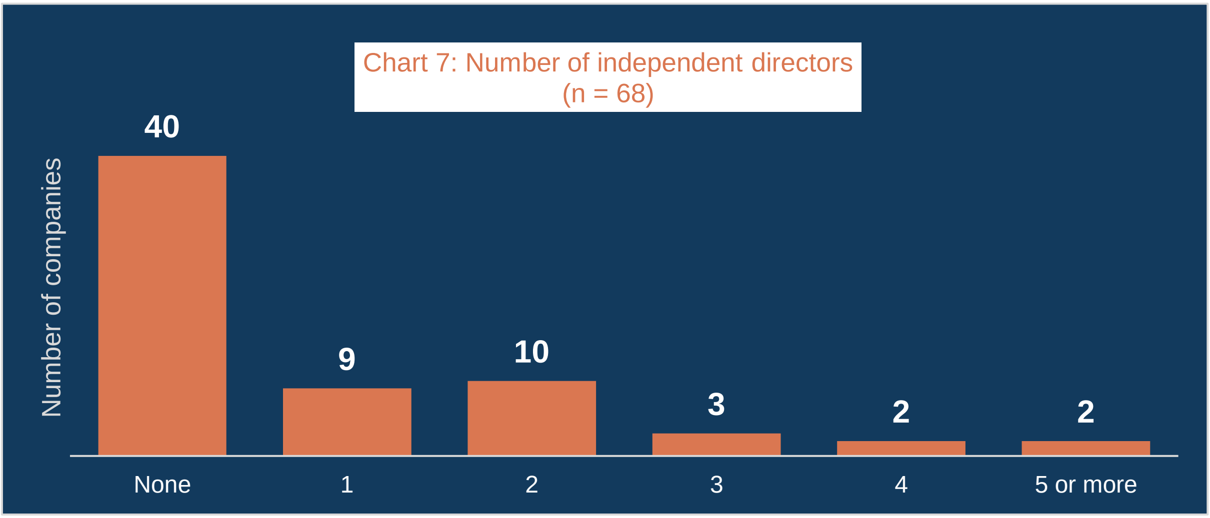
2. Do we have standardised information mechanisms and KPI that allows the board to compare business developments over time?

3. Does every board member have an equal chance to voice their opinion or suggestion during a board meeting?

## INDEPENDENT DIRECTORS

Chart 7 illustrates how many of the 74 questioned companies have independent board directors. This survey shows that 50% of the questioned companies do not have independent directors serving on their boards. The small board sizes, as well as, the exclusivity for family members to serve on boards don't leave much room for independent directors. Further reasons for a small representation of independent directors might be the lack of understanding what independent directors are, or how they can benefit an organisation.

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 supplied 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.

According to the Myanmar Companies Law, every company listed on the Yangon Stock Exchange, and every financial institution is required to have at least one independent director serving on the board.

Find the Myanmar Companies Law and other corporate governance related documents on our website:

**www.myanmariod.com/publications**

## RELEVANT QUESTIONS

1. Does our board composition comply with current laws?
2. Which characteristics should an independent director have to bring value and diversity to our board?

## BOARD LEADERSHIP

A properly staffed board, including company insiders and independent directors, provide the benefit that board members have a higher monitoring efficiency. It is less likely for bigger boards to miss important information, and more likely to evaluate existing information correctly. In times of crisis and abrupt changes small boards are overwhelmed with requests, questions, or status reports. As a result, a loss of oversight leads to situations where operations staff receive different orders from different management levels, or where boards and executives miss to understand their leadership roles and don't take any action.

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 during daily operation, usually under the supervision of mid- or lower-level management. These managers, who are in contact with the operations team on a daily basis, have access to information that the board might not have, but they might not have a systematic way to share their experience and reveal potential risk areas within the organization.

Chart 8: Board access to risk-related information
(n = 69)

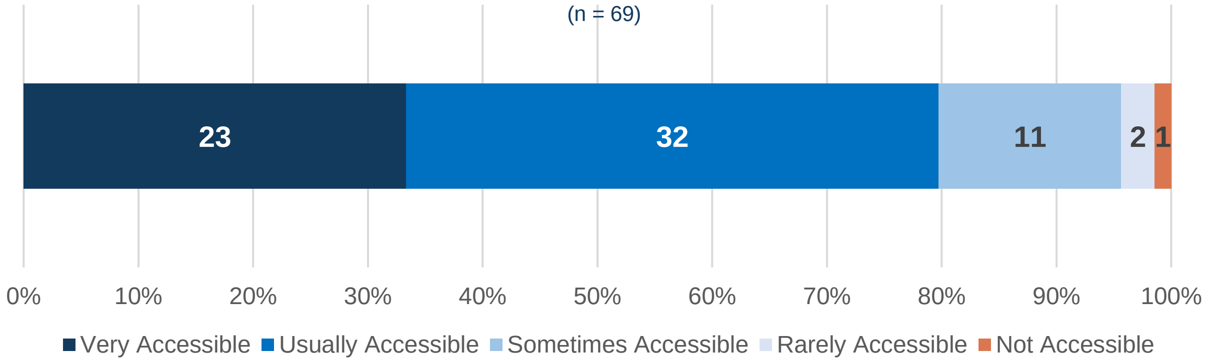



Chart 9: Board knowledge about existing risk procedures in the organization
(n = 69)

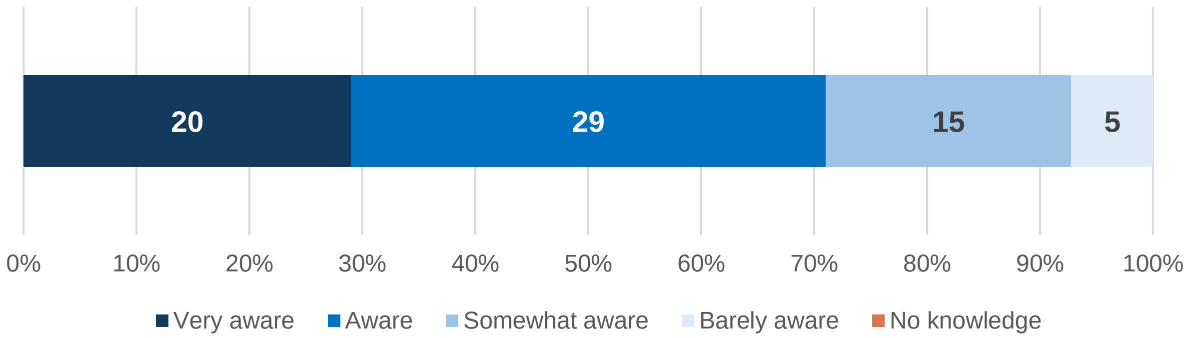
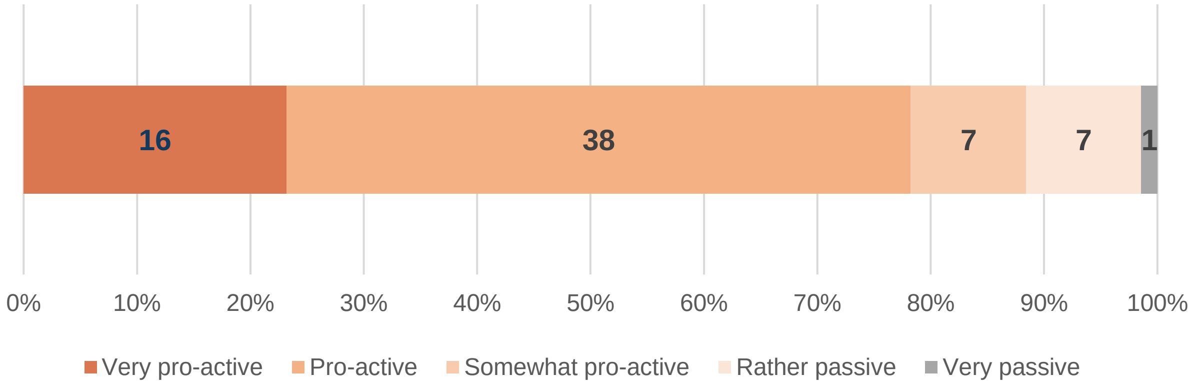


Chart 10: Board pro-activeness
(n = 69)




Out of the 74 respondents, around 80% of the survey takers claim that risk-related information is *Very Accessible* or *Usually Accessible* to their board *(see chart 8 above)*, and 70% say that the board is *Very Aware* or *Aware* about existing risk management procedures. Almost 80% further indicate that boards are *Very Pro-active* or *Pro-active* in reacting towards the pandemic. Following the quantitative question, we asked how boards reacted and what measurements were taken. All companies adhered to hygiene recommendations made by the Ministry of Health and Sports, and executed business contingency plans. However, not all activities where led by the board of directors, but by senior or mid-level management. In fact, there is a sizable amount of replies that indicated a passive and inactive board; during times when an organization needed authentic leadership the most.

## RELEVANT QUESTIONS

1. Which IT infrastructure do we use to allow access of information to board members?
2. How up-to-date are reports and risk-related information?
3. How many days does it take until board decisions reaches front-lines? How is that information transmitted and how can miscommunication be avoided?
4. Are there systematic ways for employees on all levels to reach board members and deliver important information or share their experiences?

## RISK MANAGEMENT COMMITTEES

In some instance, organisations formed risk management committees and dedicated task forces for the current situation. Though almost 80% responded that their board is *Very pro active* or *pro-active* towards risk-mitigating activities *(see Chart 10 above)*, introducing risk management committees as a response to a crisis is not ideal. 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 in charge to monitor systematic risk inside and outside the industry, as well as global risk such as the COVID-19 pandemic, and introduce risk mitigating activities before a crisis fully unfolds.

**The issue of timing:** Companies reacted to the government's announcement to execute contingency plans, but most likely saw sever changes in their daily operations before WHO's declaration of COVID-19 as a pandemic. While risk management committees are helpful, it is a major challenge to (a) identify risk situations, and (b) take strong actions to mitigate it, especially in the early stages where the level of insecurity is the highest. False positives – when a risk situation is identified but does not really exist – can be a self-inflicted disaster with negative outcomes as severe as externally inflicted crises. The key question is therefore: When to do what?

To be able to answer these questions risk management experience should be a requirement of at least some board members. Independent directors are a further way to evaluate *when to do what* as they bring in sentiment from different industries and serve as an external source of information. A lively communication with other stakeholders, e.g. the government, academia, competitors, or business chambers, shows pro-active risk management and is considered a good corporate governance practice.

## LOOKING AHEAD

As a direct result of financial disruption – missing cashflow and liquidity constraints – companies saw themselves forced to lower costs and cut non-essential activities, as well as employees associated with these. Looking into the future, organisations responded that they will use this circumstance to evaluate business units and re-design the organisational structure into a leaner one. Most of them plan to analyse where they can find cost-cutting synergies across their business activities and therewith improve operations.

As the business community moved “online”, many decision-makers started to introduce digital solutions into their organisations and said they will continue to invest into further digital solutions. This is expected to help communicating, within the company and with external stakeholders. In some cases, companies announced to strengthen their relationship with suppliers and support those, either through financial means, or through in-kind help.

Though there were some beneficiaries of the COVID-19 pandemic, the overall economic hit leaves everyone with a negative note – either in a professional or private context. The global economy experienced a sever shock and it is not foreseeable, when companies can go back to “business as usual”, and how the new normal will look like. Though generating profits is a key requirement for healthy and competitive companies, COVID-19 lively illustrated that a sole focus on short-term bottom lines can have devasting outcomes.

It is in these unprecedented times, where business leaders and board members can make far-reaching improvements to their organisations, and re-engineer the way companies are run. There is certainly no one-size-fits-all solution, but following basic principles of corporate governance, corporate social responsibility, and business ethics will put every organization on a solid foundation and prepare it well for future challenges.

MIoD would like to express its sincere thanks to all companies participating in the survey. A special thanks to Mr Aaron J Dason, Risk Lead at Deloitte Myanmar, who provided valuable insights into the analysis and contributed greatly to this project.

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The Myanmar Institute of Directors is as an independent non-profit organisation promoting corporate governance standards and best practices in Myanmar. Governed by a board of directors comprising both government and private sector representatives, the institute aims to advance board professionalism, promote business ethics and transparency, create networks between corporate leaders and stakeholders, and boost investor confidence in Myanmar's private sector.

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