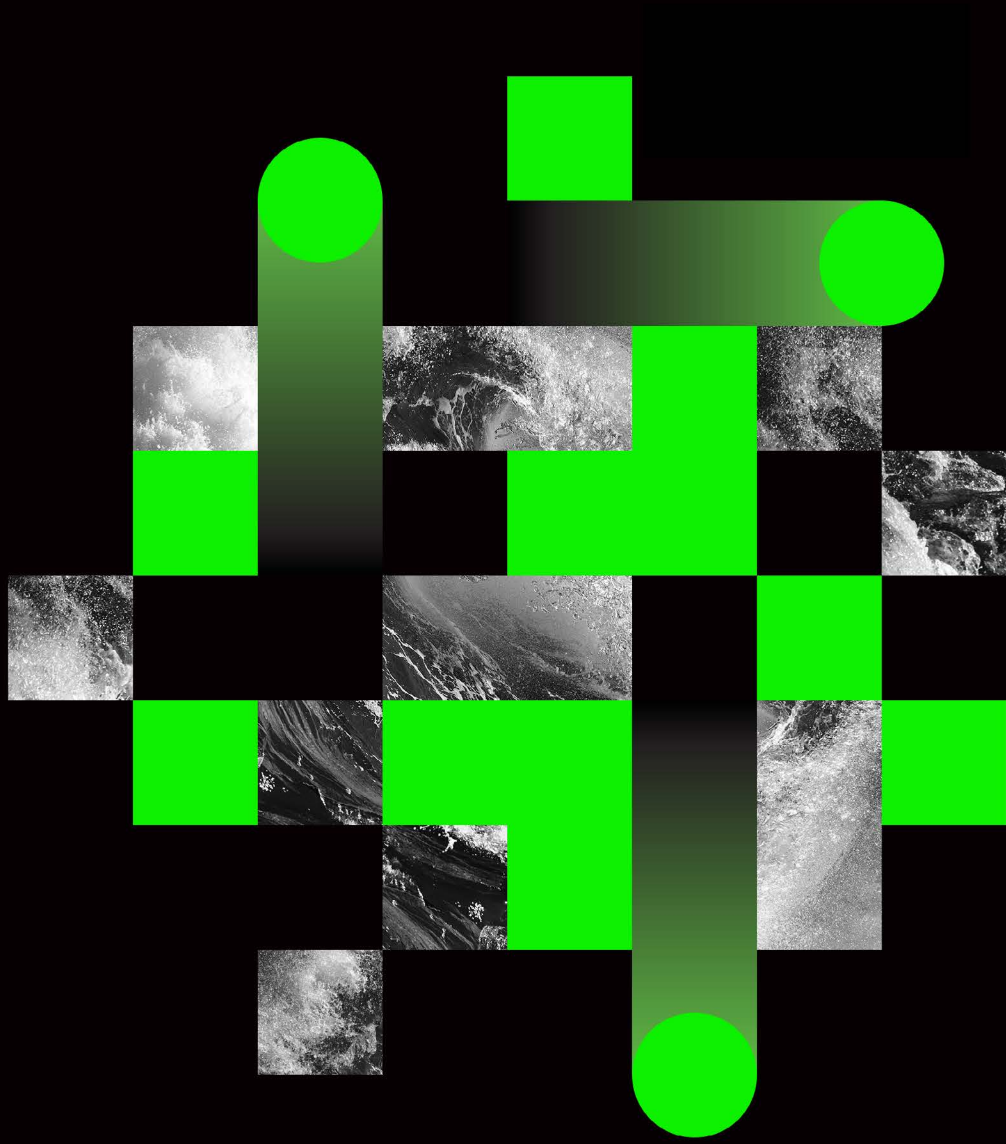
Deloitte.
Insights

A report from the
Global Boardroom Program



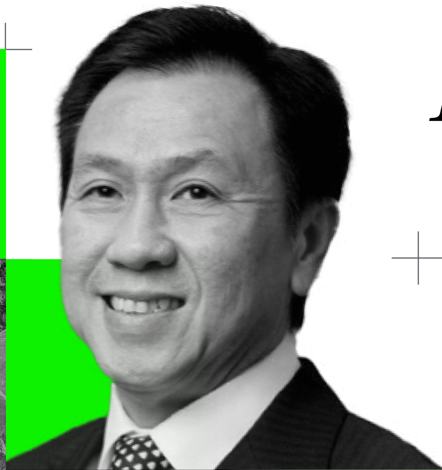
2021 Directors' alert

A new era of board stewardship begins

JANUARY 2021

About Deloitte’s Global Boardroom Program

The Deloitte Global Boardroom Program brings together the knowledge and experience of Deloitte member firms around the world in the critical area of corporate governance. Its mission is to promote dialogue among Deloitte practitioners, corporations and their boards of directors, investors, the accounting profession, academia, and government. Since 2009, the program has launched over 65 boardroom programs in Asia, Europe, the Middle East, Africa, and the Americas. Find us online.



Interview WITH **Chaly Mah**

Independent director,
Singapore

Chaly Mah is currently the Chairman of Netlink NBN Trust, Singapore Tourism Board, Surbana Jurong Group and the Singapore Accountancy Commission. He serves on the boards of Capitaland Limited, Flipkart Pte Ltd, Economic Development Board of Singapore, Monetary Authority of Singapore and National University of Singapore Board of Trustees. He is currently Singapore's Non-Resident High Commissioner to Papua New Guinea.

Mr. Mah was previously CEO of Deloitte Southeast Asia and Chairman of Deloitte Singapore. He was the CEO of Deloitte Asia Pacific and member of the Deloitte Global Executive from 2007 to 2015 and the Vice Chairman of Deloitte Global Board from 2015 to 2016.

IT IS SOMETIMES SAID that a crisis is like water; it finds the cracks in an organization. What did the pandemic reveal for you at your companies? How has the experience made you wiser as a director?

Chaly Mah: One thing the pandemic revealed was that all the scenario planning and business continuity planning (BCP) just didn't work. None of it worked. That was quite scary. You can laugh now, but at the time, it was scary.

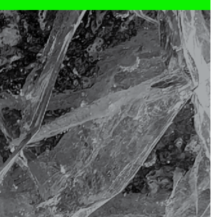
For example, most companies would never have expected they would not have enough workers, or that they wouldn't have workers at all. Most also didn't anticipate having no supplies. But during the lockdown, we had no supplies because the entire supply chain was disrupted.

Going forward, I think one lesson learned is that we have to have BCP include the possibility of other pandemics. This will likely not be the only pandemic in our lifetime. Think about SARS; that wasn't all that long ago.

One of the companies I am involved in relies on subcontractors to help lay fiber networks. When the pandemic hit, there was a surge in demand for additional fiber networks since so many people were now working from home. But the lockdowns closed the dorms where our subcontractors' workers stayed, halting progress. For a couple of months, this posed a real challenge. This is just one example of a scenario that nobody anticipated. Now, we are trying to spread our contract suppliers around, and are requiring them to have some of their workers not stay in dorms. Another lesson we learned is that risk management is not just about managing your own risk: You need to go down to the next level, making sure all your suppliers also have proper risk management processes in place. No one really anticipated this, either.

Another company I am involved in has shopping malls in China. When the Chinese government shut down some of our malls there due to the pandemic—no foot traffic, no income for tenants—this impacted not just our financial performance but also our asset valuation. At that point, nobody knows how long or when the pandemic will come to an end. Asset valuation, and how it impacts the financials will be another big challenge for boards. The bigger question for most companies is, *How do you prepare for a recovery?* At some point, business is going to return to normal, but it may not be in its current form, so boards will need to review their current business models to determine if they are still relevant in the *new normal* postpandemic.

At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there.



When the pandemic dragged on, we started to look at the sustainability of our business. How will businesses change? What is the future of shopping malls, the future of offices, the future of work and how we work? Will working from home become a permanent fixture? We all had to consider our business models. At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there. When asked to come up with ideas that could position the company forward, these young people became excited and felt empowered to make a difference for the future of the company.

Finally, the impact the pandemic has had on tourism has been very painful. I serve on the Singapore Tourism Board (STB). Our mandate is to bring tourists into Singapore and generate economic activity for the country. When your border is closed, you can't do that. Suddenly there is a crisis to manage every day—tour agents closing shops, areas frequented by tourists closed down, etc. While some activities have returned to near normalcy, tourism is still a big challenge: The travel industry in Singapore likely won't get back to pre-COVID levels in the immediate future.

What are some of the most important factors for companies to consider over the next three-year period?

CM: I think trust—the social contract between society and business—is very important. On the road to recovery, we'll really need to build trust in the system. In Singapore, most people trust the government and its systems. The STB recently launched the SG Clean quality mark, a certification standard for restaurants and hotels to help people feel more confident and safer about traveling to Singapore and doing business here. I think it will help with the recovery.

Will companies become more risk-averse in financial management? Should they?

CM: Yes, because companies have never seen something like this before. They will be much more aware of black swan events, which will need to be added to the board's agenda. Prudent financial management is something that companies somehow just never seem to learn. During SARS, companies overborrowed. During the global financial crisis, companies also overborrowed; they didn't seem to have learned from the previous crisis.

I think prudent financial management is very important for a board. Boards should ensure management stays within the risk tolerance level the board has set for them. At one of my companies, our board uses risk indicators, targets, and trending risks. Whenever a key risk is trending toward the risk tolerance limits, we ask management why and what steps are they taking to address the risk.

Will being too risk-averse slow down the recovery?

CM: I think it will. Stronger companies, particularly the ones that have gone on to raise cash, may use this crisis as an opportunity to make acquisitions. Right now, their boards are saying, *Let's not waste this crisis. Let's look at those things we always wanted to do. Can we make an acquisition or look into M&A to expand the business or invest in other areas to get us there?* Of course, on the flip side, companies that are struggling may not be able to sustain their businesses and would become acquisition targets. So, you would see the stronger get stronger, and the weaker get eaten up. Unfortunately, this is the cruel reality of business. But well-managed companies could make use of this opportunity to expand and make acquisitions.

Another key area of focus is cyber risk. Since COVID-19 began, cyber risk has become part of the standing board agenda. With work-from-home arrangements becoming more prevalent, every time an employee accesses company systems from home, it presents a cyber risk. Some cyber incidents could cripple companies. This is why cyber has become an urgent matter for the board.

How do your companies balance between the needs of a business and those of society?

CM: The pandemic has made the divide between the haves and have nots much more pronounced. In Singapore, we're very fortunate to have a government that takes care of its people and is very progressive. But in other countries, poorer people don't have access to good health care, which is why so many people have died.

How, then, does this translate to companies?

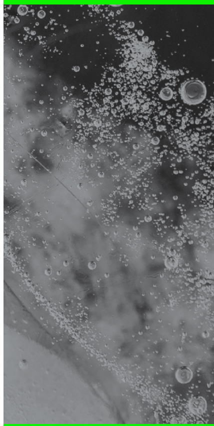
CM: Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed. The mental health component is a big challenge because it's very difficult to track stress when employees are working from home. Some companies are doing little things, like sending care packages to employees working remotely, to let them know they are still thinking of them.

Boards are becoming more inclusive about ESG (environmental, social, governance) goals. Organizations that received government support and were not as badly impacted should consider giving some of the money back to society.

At one of my companies, for example, we waived internet installation charges to help people work and go to school virtually. We prioritized homes that were not connected and connected them free of charge. These are just a few things companies can do to bridge the gap between the haves and the have nots.

The Singapore government is doing a great job helping senior citizens go digital. It has deployed ambassadors to teach older generations how to use contract tracing apps, and other things we need to do to have a more inclusive society.

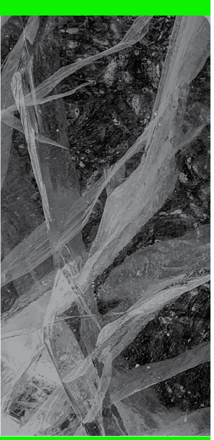
Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed.



Trust between management and the board is now very critical. And a level down, the trust level between management and employees is also very important because management is making very difficult decisions such as pay freezes and pay reductions, and employees want to know why. Management needs to continue to build trust with the entire organization. For many younger employees, this is probably their first experience of a crisis and economic downturn.

And what about investors?

CM: Transparent and open communication has become even more important now. We have numerous discussions at the board level, particularly around disclosure and, if asset valuation has been impacted, there are questions about profit warnings. These will be the sorts of discussions to have with your stakeholders and investors. Timing becomes critical when you issue a profit warning; it has become a board agenda item. With management busy with the day-to-day issues, boards have been asking about the impact, when you disclose, to what extent do you disclose, and how big is the impact. These are not easy questions to answer.



This crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.

For boards to be transparent and have open communication with investors, they need to have policies in place for continuous disclosure. In the past, the continuous disclosure regime seemed to be around transactions and acquisitions—when are you aware of an acquisition and when you disclose it. But this crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.

And what about ESG issues in the boardroom?

CM: Boards are asking questions around social impact as well as the environmental and governance concerns. Climate change and its impact on rising sea levels are real challenges. The government here committed to spending one billion dollars a year for the next 100 years to manage flood risk and rising sea levels. The projections show if nothing is done, in 50 to 60 years, parts of Singapore may be under water. Consider fiber networks, connected to homes, which are all underground and protected in pipes. Any time there's a cut, to get down there you need to dig. Every time you dig, there's water, which requires pumping out in order to access the pipes. So questions to ask management would be: *What happens if parts of Singapore are underwater? Even if the fiber is water resistant, how will you access it?*

Boards would be irresponsible if they didn't have ESG goals in their discussions around the impact of climate change. And while carbon footprint is a very complicated subject, boards are now starting to think about it, because the call to action is now.

On all the boards I'm involved in, there's an ESG plan, management commits to certain targets, and the board holds them accountable for it. Management is measured based on reports on how they executed against the plan.

Should companies have a board committee dedicated to this area?

CM: It really depends on the type of business. It's not one-size-fits-all. The boards I'm involved in have a committee but not at the board level, though there is a board sponsor for the committee. Other organizations have this as a board-level committee.

More broadly, ESG is getting a lot of traction. Boards really need to make it part of the agenda because getting ahead on ESG can drive down business costs in the long run. Increasingly, as a condition for investment, investors are demanding companies set and meet specific ESG goals. Banks, meanwhile, are promoting sustainability in their product mix: Green bonds and green loans are priced more favorably than typical bonds and loans, but can only be used for green projects. There are also sustainability bonds, which are priced lower, but require companies to achieve carbon footprint targets by a certain period.

Now, some companies are exploring whether they should include a carbon penalty into the cost of capital. It's a new concept that's still evolving, but boards really need to take this seriously. Sustainability bonds and green bonds can all help drive down cost, but, on the other hand, if you start to include the cost of carbon into your weighted average cost of capital, it will drive up your cost of capital.

What do you think are the top three secrets to an effective board?

CM: Trust among board members, and between management and the board. Without that, the board—and the company—can't function. The second is transparency, open communication, and candid discussions. Third, the board must have independence; you can have diverse perspectives, and yet be able to respect each other's views.

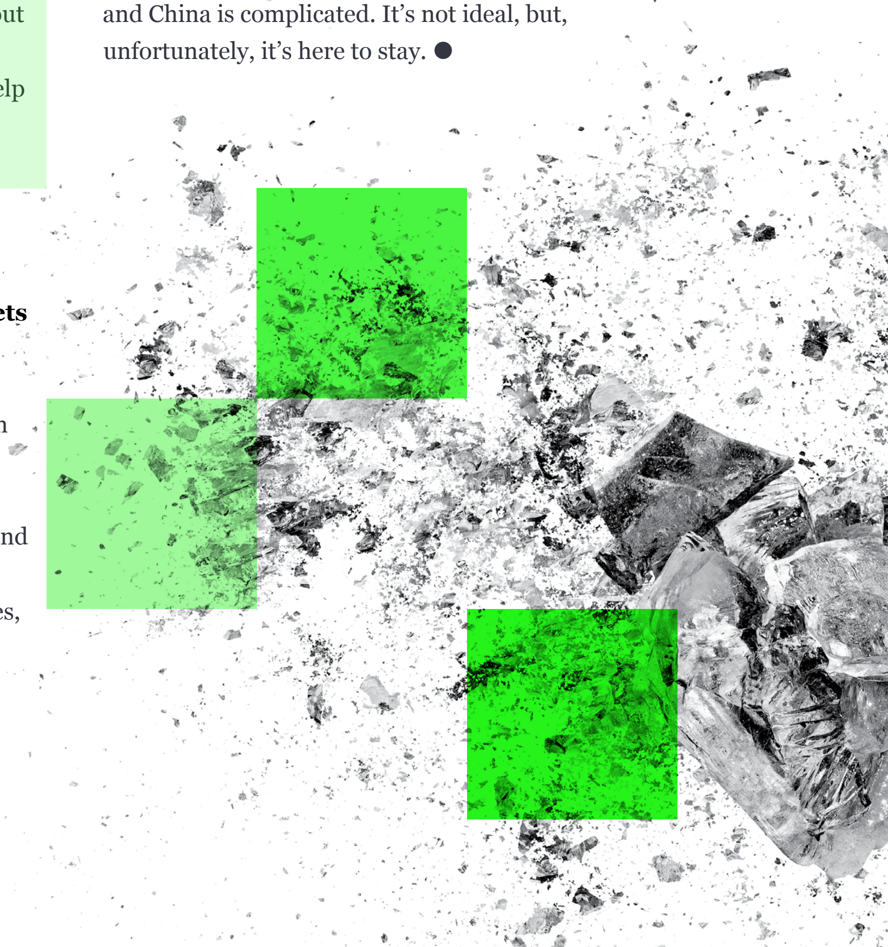
And for a new CEO?

CM: Similarly, the CEO needs to build trust with his own people, command respect, and take leadership and accountability for his or her team. Between the CEO and the board, having trust and open communication is really important; that communication channel needs to stay open.

Which external trend do you think boards should be talking more about and why?

CM: The "unknown unknown" is what I'm most concerned about. This involves a company's resilience and sustainability. Manufacturing companies in Asia, for example, have seen customers start to diversify their supply chains. Instead of using production facilities only in China, many companies are shifting some of their production base to countries like Vietnam and Cambodia.

Companies will need to assess the external environment and geopolitical situations and adjust their business models as needed. The current geopolitical tensions between [the United States] and China is complicated. It's not ideal, but, unfortunately, it's here to stay. ●



Endnotes

1. Bureau of Economic Analysis, "Personal income and outlays, November 2020," news release, December 23, 2020.
2. Trading Economics, "United States existing home sales," accessed January 12, 2021.
3. Track the Recovery, "Home page," accessed January 12, 2021.
4. Seung Min Kim et al., "Trump signs stimulus and government spending bill into law, averting shutdown," *Washington Post*, December 28, 2020.
5. Joe Miller, Leila Abboud, and Arthur Beesley, "European countries set to extend lockdowns as Covid cases surge," *Financial Times*, January 3, 2021
6. Kerry Craig, "Bond defaults will force a needed repricing of risk in China's credit market," *South China Morning Post*, December 4, 2020.
7. Barry Eichengreen, "The debt dogs that didn't bark," *Project Syndicate*, December 11, 2020.
8. To learn more about resilient leadership, read: Punit Renjen, *The heart of resilient leadership: Responding to COVID-19—A guide for senior executives*, Deloitte Insights, March 16, 2020.

About the authors

Sharon Thorne | globalchair@deloitte.co.uk

Sharon Thorne is the chair of the Deloitte Global Board of Directors. She is an advocate for collective action on environmental sustainability, and has long championed Deloitte's ambition to achieve higher representation of women in leadership globally. Thorne has more than 30 years of experience auditing and advising clients across a broad range of sectors, including extensive experience serving as lead audit partner for FTSE-listed clients and coordinating services around the globe. In addition to a number of executive roles, Thorne has spent more than three decades on boards including as chair. She is a current member of the A4S Advisory Council, the Social Progress Imperative board of directors, the World Economic Forum Platform for Shaping the Future of the New Economy and Society Stewardship board, and the Shanghai International Financial Advisory Council.

Dan Konigsburg | dkonigsburg@deloitte.com

Dan Konigsburg leads Deloitte's Global Boardroom Program, a global network that promotes dialogue in the critical area of corporate governance across 66 countries. The Program coordinates thought leadership on governance issues developed by Deloitte member firms to advance thinking on corporate governance issues around the world. Konigsburg serves as Chairman of the OECD's Business Advisory (BIAC) Committee on Corporate Governance in Paris, is a member of the Board of Governors of the International Corporate Governance Network (ICGN), and serves as a director on the board of the US Council for International Business (USCIB).

Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Industry leadership

Sharon Thorne
Deloitte Global Board Chair | Deloitte Global
+44 207 303 5709 | globalchair@deloitte.co.uk

Dan Konigsburg
Senior managing director, Global Boardroom Program | Deloitte Global
+1 212 492 4691 | dkonigsburg@deloitte.com

Deloitte.
Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.

Follow @DeloitteInsight

Deloitte Insights contributors
Editorial: Karen Edelman, Hannah Bachman, Nairita Gangopadhyay, Abrar Khan, and Rupesh Bhat
Creative: Sylvia Chang and Cassia Duncan
Promotion: Maria Martin Cirujano
Cover artwork: Sylvia Chang