

# Conceptual Approach to Board Reporting Framework

## A Post COVID - 19 Corporate Governance Perspective

\*Concept Paper by the The Management Accounting Committee,  
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This concept paper contains the following contents on the proposed Board Reporting Framework Post COVID-19:

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### Objectives

Almost the entire world today is reeling under the threat and aftermath of unprecedented COVID 19 pandemic. This has had a huge and significant impact on the businesses all over the world across sectors. The disruption to normal business models from the supply lines is likely to have long-lasting repercussions. Given such a scenario, companies will need to operate differently to effectively manage the crisis. COVID-19 is changing the way we live, work and use technology. As the world adjusts to its new normal, this calls for a need to rethink strategies to drive resilience and emerge from this crisis stronger. The Corporate Boards will respond to challenges resulting in revised business models evolving over time frame. The objective of this paper is to provide a conceptual Corporate Governance perspective to the Board Reporting Framework – Post COVID 19 which will serve as an internal document from the managements mirroring the renaissance of the related entity.

### Underpinning Philosophy

Post COVID 19 business will have a new normal and the Corporate Governance perspective and Board Reporting Framework will have to be reengineered accordingly and appropriately. There is an imperative need to have a well-defined management reporting to update the Board

on the crisis and its (changing) impact on business fundamentals, with data about current and projected impacts on performance based on established key indicators and how the business is recovering. It is also important that the Board adapts its working mode to the speed of events, requiring ongoing communication between Boards and Management Teams.

### Value Chain Approach

The speed and breadth of this crisis has impacted the Value Chains of the companies both internal and external to the entity. The Current Corporate and Board Reporting Practices are entity focused. Post COVID 19 the Value Chain Approach based on sustainability and the Integrated Reporting Architecture would be more relevant which is also endorsed by the Global Management Accounting Bodies.

The COVID-19 pandemic has destabilized supply chains like no other event in recent history. Effective inventory management including efficient warehousing keeping the customer value expectations in focus the managements will be compulsorily be required to relook the entire value chain and work out appropriate strategies and action plans to deal with the new emerging business order. The focus will be on faster ramp up and sustained growth of the organization.

As the Corporate Managements can reset their business models only by looking outside the boundaries of an entity, reporting to the Board should also follow that path of the value chain. Therefore Value Chain Approach and not the entity level should be the touch stone of Corporate Reporting.

### Key Board Reporting Themes

Once the pandemic is over, Boards and Management should take the opportunity to review the situation and discuss lessons learnt including how the business was disrupted (historical impact) and likely future implications for the business. This requires a facilitative management reporting framework focused on capturing the historical impact and offering a perspective and handle on projected impacts on operational and financial performance of companies. The Boards should get this right and it presents a unique opportunity to establish and build trust within their stakeholders. The key themes on which the management attention and indulgence is inevitable are –

- Rebuilding Stakeholder value
- Supply Chain – Inbound
- Production / Operations
- Marketing
- Supply Chain – Outbound
- Financial Resources Management
- Infrastructure Management
- Human Resources
- Information Technology
- Sustainability

### Time Dimensions

Once the pandemic is over, Boards and management should take the opportunity to review the situation and discuss lessons learnt including how the business was disrupted (historical impact) and likely future implications for the business in immediate, short, medium and long term. In the current scenario, the Time Dimension of short, medium and long term have a different connotation than what is normally understood, explained elsewhere in this paper.

This requires

- Impact assessment (Historical analysis),
- Short term action Framework (1 month to 3 months),
- Medium term action Framework (3 months to 6 months),
- Long term action Framework (6 months to 1 year),

The Boards will have to keep tab on the various aspects of business on continuous basis informally, even though the structured / formal reports may be presented in the Board meeting(s) held periodically.

### Beyond Financial Performance Parameters

The philosophy of a good company is not only to provide a fair return on investment to the shareholders, which is financial consideration, but also to take care of the expectations of other stakeholders through non-financial measures like: providing good working condition, providing for career growth and development, recognizing creativity, encouraging meritocracy, value based management system, increase in productivity, improved standard of living, new customer retention, customer satisfaction, and consideration of social & environmental issues in

strategic decision making. Non-financial performance parameters can act as leading indicators because if the company is doing good job in these dimensions, most probably it will generate good results with respect to financial indicators, like profit, growth, sales etc. Through all these measures, the company will not only earn a good reputation, which is an intangible asset, but also will improve productivity, thereby creating competitive advantage.

### Futuristic Information

As the reporting will now seek to inform the Board not only the historic impact but also futuristic information, the managements need to be on sound footing in estimating future costs which will form a part of short, medium and long term indicators. Moving beyond the accounting norms of good estimates and provisions, measurement tools need to be in place to forecast the costs impact in foreseeable future using Cost and Management Accounting tools like Life Cycle or Technology Based Costing.

### Risk - Impact and Management

Business risk involves the possibility of financial and operational difficulties in the business environment. The COVID-19 pandemic demonstrates the unprecedented levels of global connectivity we work and live with; and how seemingly unrelated issues like the resilience of businesses, dependence on supply chains, and normal social interactions can be simultaneously severely compromised. The businesses in future will need to develop comprehensive and robust Risk Management Architectures with a view to affording risk shield to their operations and an ability to steer the entity towards achieving organizational objectives. This calls for a relook at the way the companies were managed in pre COVID-19 scenario. Financial and Non-financial information may need to be viewed through the lens of risk management before they are presented to the Board.

### Board Reporting Framework

Based on the concepts suggested as above, a suggested template **Board Reporting Framework** is presented below. The template is purely suggestive and the indicators need to be populated based on the strategic and operational context of an individual entity. However what we have attempted is to populate the template under two scenarios.

- Scenario One is that of a manufacturing company**
- Scenario Two is that of a services company in ITES domain**

## Scenario One: Financial Parameters of a Manufacturing Company

Themes	Indicators*	Strategic (S) Operational (O)	Historic al	Short Term	Medium Term	Long Term
Rebuilding Stakeholder Value	Market Capitalisation Drop	S	50%			
	Reduced dividend distribution planned	S		75%		
Inbound Supply Chain	Value of inventory lost in Lock Down	O	3 Crores			
	Expected increase in Raw Material Cost % to Cost of Goods Sold	O		8%	10%	5%
	Budget for relocating China source	S			2 Crore	
	Increase in logistics cost as a % of Material Cost	O		10%	5%	

<b>Manufacturing</b>	Increase in manufacturing cost post COVID norms	O		15%	12%	
	Decrease in power cost due to load shed	O		10%	8%	5%
	IT investments in IOT and AI in manufacturing	S			1 Crore	3 Crore
	Capital invest due to machine spacing	S			2 Crore	3 Crore
	Expected increase / decrease in prices of raw material	S				
	Impact on material mix due to non-availability / substitution of imported with indigenous material	S				
	Restarting expenses after lock down	O		5 Crores		
	Loss of contribution in lock down	O		10 Crores		
<b>Marketing</b>	Increase in branding cost as a % of Cost of Sales	O			5%	10%
	New Product Development (NPD) budgets for new products post COVID	S		<5 Crores	2 Crore	5 Crore
	Budget for rebuilding customer base	O		1 Crore		
	Budget for E marketing	O				
<b>Supply Chain Outbound</b>	Increase in out bound freight costs	O		5%	3%	2%
	Increase in space cost for hub and wheel	S		5 Crores	2 Crore	
	Budget for increase in dealers / distributors	S		5 Crores	2 Crore	3 Crore
	IT investments for dealer connectivity	S		1 Crore	2 Crore	2 Crore
<b>Human Resources</b>	Manpower cost during lock down	O	2 Crores			
	Increase in manpower cost - Social Distancing	O		5%	10%	15%
	Restraining local manpower skills	S		25 Crores	1 Crore	1 Crore
	Increase in welfare costs	O	2 Crores	1 Crore	2 Crore	2 Crore
<b>Information Technology</b>	Budget for server capacity increase	O		2 Crores		
	Disaster recovery Management System	S			5 Crore	
	Digitisation of all operations	O		5 Crores	5 Crore	
<b>Sustainability</b>	Increased cash requirement operational	O		1 Crore	2 Crore	
	Government Revenue Grants / aid as % of sales	O		5%	5%	
	Impact of delayed receivables	O				
	Impact on Working Capital	O				
	Impact on Debt service obligations	O				

*\*The indicators of financial and non – financial performance as referred to above are generic in nature and used only for illustrative purposes. Each corporate entity may suitably modify the same in accordance with its nature and scope of activities / operations.*

## Scenario One: Non-financial Parameters of a Manufacturing Company

Themes	Indicators*	Strategic (S) Operational (O)	Historical	Short Term	Medium Term	Long Term
Rebuilding Stakeholder Value	Health / relief Camps organised in Villages Adopted	O	10			
	Health / relief Camps proposed in next 3 months	O		25		
Inbound Supply Chain	Equivalent months of Inventory lost in Lock Down	O	2			
	Time required for vendor restoration by 50%	O		2 Months		
	No of new vendors to be added replacing Chinese	S			8 Months	
	Capacity lost during Lock Down	O	30%			
	Time required for restoring bottle necks by 50%	O			2 Months	
Manufacturing	OEM Supplies of equipment expected delivery	O			6 Months	
	Assessment and delivery of Equipment for NDP	S				12 Months
	Increased space required for rebuilding layout	S			50%	
Marketing	Drop in market share to pre COVID base	O	50%			
	Time to reengage within the current customer base	O		2 Months		
	Likely drop in customer base due to logistics	S			25%	
	Loss of market share in premium product range	S			50%	
Supply Chain Outbound	No of Dealers who have shutdown business	S	25			
	No of Distributors who have shutdown business	S	10			
	FG Inventory lost in Lock Down	O	1 Month			
	Time to rebuilding channels to 50%	O		2 Months		
	Increase in space required for logistics	S			50%	
Human Resources	Migrant Labourers drop due to shut down	S	100%			
	Probable shortage in labour - Social Distancing	O		25%		
	Increase in deployment levels of local labour	O		20%		
	Reskilling required of the evolving labour force	S			20%	30%
Information Technology	Disruption with vendors and customers due to IT	O	30%			
	Time required for future work from home scenario	S				12 Months
	Time required for expanding server capacities to 50%	S			10 Months	
Sustainability	Reduction in Carbon footprint due to lock down	O	70%			

Themes	Indicators*	Strategic (S) Operational (O)	Historical	Short Term	Medium Term	Long Term
	Proposed reduction in Fossilised power	S			30%	

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### Scenario Two : Financial Parameters of a Services Company in ITES domain

Themes	Indicators*	Strategic (S) Operational (O)	Historical	Short Term	Medium Term	Long Term
<b>Rebuilding Stakeholder Value</b>	Market Capitalization Drop	S	50%			
	Dividend Distribution Plan	S		75%		
<b>Infrastructure Management</b>	Growth rate impact on infrastructure	O		8%	10%	5%
	Cost of Infrastructure with WFH concept increasing	S			2 Crores	
	Increase in the cost of hardware due to WFH	O		10%	5%	
<b>Operations</b>	Cost of Bench due to lockdown	O		15%	12%	
	Delays in executing the existing Projects	O		10%	8%	5%
	Capital Investment due to Social Distancing	S			1 Crore	3 Crores
	Restarting expenses after lock down	S			2 Crores	3 Crores
	Cost of Bench due to Customers situation	O				
<b>Marketing</b>	Impact on the Growth Rate due to lock down	O		10 Crores		
	Pricing Pressures	O			5%	10%
	Loss of New contracts due to changed scenario	S		<5 Crores	2 Crores	5 Crores
	Loss of Customers due to Lockdown	O				
	Budget for rebuilding customer base	O				
	Value of orders lost due to Customers Position	O				
<b>Supply Chain</b>	Impact on Products for certain verticals	S				
	Increase in cost of Technical Services	O				
	Increase in cost of other Services : Maintenance	O				
	Communication and Internet					

Themes	Indicators*	Strategic (S) Operational (O)	Historical	Short Term	Medium Term	Long Term
<b>Human Resources</b>	Manpower cost during lock down	O	2 Crores			
	Increase in manpower cost social distancing	O		5%	10%	15%
	Retraining Manpower	O		25 Crores	1 Crore	1 Crore
	Increase in welfare costs	O	2 Crores	1 Crore	2 Crores	2 Crores
<b>Financial Management</b>	Currency Fluctuations	O				
	Increased Cash requirements	O				
	Capital required – Short / Long term	O				
<b>Sustainability</b>	M&A opportunity to increase the presence	S				
	Cash Flow Situation	O				
	Expected delayed receivables	O				
	Working Capital Requirement	O				
	Debt service obligations	O				
	Expand Locally based on the Client presence	S				
	Output and Outcome models	S				
	Impact Salaries					
	Data Leakages	S				

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### Scenario Two: Non-financial Parameters of a Services Company in ITES domain

Themes	Indicators*	Strategic (S) Operational (O)	Historical	Short Term	Medium Term	Long Term
<b>Rebuilding Stakeholder Value</b>	Health Camps Adopted	O	10			
	Health Safety and Environment Policy	S		25		
<b>Operations</b>	Release Dates missed	O	2			
	Time required for restoration of production	O		2 Months		
	Capacity lost during Lock Down	O				
	Automation of IT Development and Operations	S				
	Performance of Technical Contractors	O				
<b>Supply Chain</b>	Impact on Hardware and Software supplies	O				
	Impact on Technical Services	O				
<b>Infrastructure Management</b>	Impact on Construction and Capital supplies	O				
	Time required for restoring bottle necks	O	30%			
	Time required to shift from 100% Infra model to 50%	O		2 Months		
	Space required to rebuild with WFM strategy				6 Months	

Themes	Indicators*	Strategic (S) Operational (O)	Historic al	Short Term	Medium Term	Long Term
Marketing	Probability of Domestic demand due to Digitization	O				
	Drop in market share to pre COVID base	O	50%			
	Time to relook at the Verticals that matter more	O		2 Months		
	Likely drop in customer base	S			25%	
	Loss of market due to Customer conditions	S			50%	
Human Resources	Probable shortage in labor - Social Distancing	O		25%		
	Increase in deployment levels of local workforce	O		20%		
	Reskilling required of the evolving workforce	O				
	Robotic processing to impact Low level IT staff	S			20%	30%
Sustainability	Business continuity Plans	S				
	Agility and Adaptability of the organization to meet the new challenges	S	70%			
	Globally Networked Distribution work spaces	S				
	Location Independence Model	S			30%	

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