

Board's Covid-19 Dilemma

■ *Mr. Arun Balakrishnan



The discussion in the Boardrooms that I have recently been attending have been predominantly on the impact of Covid-19 and the preventive measures by the government on business and life in general. The twenty-one-day lockdown and the extension by another two weeks has dealt a sledgehammer blow on already weak fundamentals of quite a few companies.

The issues facing the Boards are many. The main is the safety of its employees, both regular as well as outsourced. HR and IT departments have sprung into action to enable Work from Home (WFH) for activities that can do without physical presence in the office. The digital push would surely entail higher levels of cyber security and other IT interventions. For the producing units, exemptions to the continuous process industry was helpful but for others it was just shutting down operations as has happened for many companies.

After safety, the next most discussed topic is cash flow. Irrespective of whether you are operating or not, there are fixed costs that need to be paid for such as salaries, interest on borrowings, loan repayments. If the revenues dry up, these payments and the associated covenants become a problem. Indian Banks, despite governmental prods, have not been quite helpful in this regard after having burnt their fingers and increased their NPAs in dealing with NBFCs and some unscrupulous customers. Preserving cash is now the overwhelming concern of Boards. Pressure is put on managements to ensure faster collections of receivables and be fair in making payments especially to MSMSEs. Force Majeure clauses in contracts are liberally being used to delay payments and such attempts need to be tackled legally as well. Agility of Boards and management becomes imperative at this juncture.

Retrenchment is one way out, but the government is not going to look at you kindly if you do so. Maybe across the board salary cuts seem to be the compromise solution. Boards are recommending withholding increments for sure until such time revenue collection improves. This again depends on the salary bill which varies with the type of industry you are in. Managements are encouraged to communicate faster and better to employees as well as to customers, stakeholders, and shareholders as well.

Most companies are amidst executing large projects. In one

company, there were about fifteen thousand contractor workmen at site, now idling because of the shutdown. They were open to reimbursing the wages to the Contractors to keep these workers from running away to their hometowns, a phenomenon seen so much in the media. Since then, governments have relaxed the restrictions a fair bit and most of them are back to work albeit ensuring social distancing and requisite protective gear. Banks are tight fisted in funding contractors and small businessmen, so companies have taken to funding the contractors to keep the work moving. Delays in project commissioning are far too expensive compared to higher cost of borrowing.

Demand destruction is another much discussed matter. One is the immediate loss of business due to the shutting down of the supply chain. More important is when consumers get used to alternates that they have been forced to adopt. Like a good number of newspaper readers, who would have got used to reading e-Newspapers on their iPad, may not go back to the printed version. The absence of motor vehicles on the road have cleaned up the atmosphere so much that the government may continue with restrictions on the use of motor vehicles. It is a matter of setting off the loss of revenue from Motor Vehicle and fuel taxes with the government's expenditure on medical treatment (doctors, hospitals & medicines).

WFH has opened up questions on the need for large real estate expenses for fancy offices in expensive localities. In one Board, the Management has resolved to reduce office space and have the employees come to office on rotation at intervals on need basis. If WFH gets institutionalised, the motor vehicles on the road will also reduce and in many cities, commuting may become much faster than what it is now.

The oil companies I am associated with are staring at big changes. There has been a reduction of over thirty five percent in oil demand since the beginning of this year. Large new investments in refining as well as in exploration and production are being reviewed by the Boards as there is no guarantee that the demand destruction seen is not permanent and these new facilities are becoming redundant. New accounting standards would require such investments to be written off to reflect the real value of the company to its shareholders.

Scenario planning is what I recommend at the Boards I attend. Shell was the first company which introduced this concept and made good use of it in the 1970's oil price crisis. They were thus well prepared to handle the

consequences that followed. Managements are encouraged to create three or four scenarios of what the world would be like in the near future and beyond based on the impact of this unprecedented pandemonium. And then come out with likely solutions to mitigate the impact resurrect the fortunes of the organisations and the way business would be done. Some interesting scenarios are emerging from such exercises.

Resilience is another factor. How much of it do the supply chain, distribution channels and even the Board processes be credited with? The more robust the Audit, Risk and Nomination and Remuneration committees have been functioning, the stronger the company and its Board would be. Risk mitigation would necessarily move the needle towards variable cost models that would save the company heavy capital expenditure and the risk of obsolescence.

Board meetings are now on VC. Board members are getting to like it. Government has relaxed provisions requiring physical presence of Directors for certain types of approvals. The pain of rushing from one city to another during the quarterly results season will be soon a thing of the past. And none of us are going to get on to an aeroplane when we really would not know what virus the guy next to you is carrying. Most Directors clearly say no air travel at least till the end of this calendar year.

Soon the season for Annual General Meetings (AGM's) would come. For those companies with Accounting Year ending in December, the deadline for holding AGMs is not too far away. MCA may give approvals for extension, but are investors open to attend in person as comfortably as before? And would it be fair for companies to withhold dividend distribution when most small shareholders are short of cash? I have been advocating that the Government be persuaded by industry bodies to permit virtual AGM's as there is technology available for doing so. As it is, with e-Voting, the importance of AGM's has receded and only a handful of shareholders turn up. And some of them come more to fine tune their oratory than to seek an answer to the issues they have with the management. In any case, several of them go away after they had their say without waiting for management response.

The way business is being done will change for the better and new paradigms will emerge with time. And Boards will have more responsibilities to bear. Let us see how things will unfold.

***Mr. Arun Balakrishnan** is the founder Chairman & Independent Director, HPCL-Mittal Energy Ltd. (HMEL) & former CMD, HPCL. He is also IOD's Chairman for the Bengaluru region.

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