

A Report on

Board's Role & Strategy: Overseeing Risk and Uncertainties in the COVID-19 Pandemic

IOD INDIA
GLOBAL
WEBINAR

Institute of Directors (IOD) organized a Global Webinar on June 09, 2020, simultaneously on two platforms i.e. Zoom & Facebook, from India, which was largely attended from all over India and abroad, with distinguished speakers and over 800 guests from countries all across the globe, including UAE, Maldives, Australia, New Zealand, Nepal, Europe, Africa, Singapore & India. The Theme of the Webinar was "Board's Role & Strategy: Overseeing Risk and Uncertainties in the COVID-19 Pandemic".

Lt. Gen. J. S. Ahluwalia, PVSM (Retd.), President, Institute of Directors, India, in his 'Opening Remarks' welcomed the distinguished speakers and eminent participants. "Never waste a crisis. New market fragments and choices are emerging due to COVID-19", he said. This is the "new normal". "As far as boards are concerned, they are leading with awareness. Vulnerability and empathy are vital to help organizations to fight this crisis. Boards need to anticipate many changes and be proactive in charting the company's strategy and policy, to meet the impermanence." "To drive and deliver better values, Boards need risk management strategies, determination, and resolve to stay the course and to convert each crisis into opportunity." Boards should embrace data-rich technology platforms, facts, and insights for decision-making,

look at problems from multiple vantage points, their ability to – gather, organize, interpret, and act on data. Analytics will be the defining competitive differentiator. Boards need to adopt an explicit risk appetite and execute effective hedging strategies. The Board's oversight, understanding, and mitigation of risks in the present complex, volatile, uncertain, and ambiguous business world are vital. "Not all Boards can mitigate the uncertainties inherent in the changing risk landscape", he pointed out. The role of Directors is becoming complex due to a diverse range of factors, disruptive world markets, and accountability to social media oversight, resulting in losses, scandals, failures, and loss of trust with stakeholders. We must build and reinforce a strong risk culture and a risk appetite within the Board. "IOD is increasingly focused on the Board's role to oversee risk management." The key issues of risk management like ERM, cyber risk, etc. are all adequately and practically covered in a very useful Guide **Handbook – 'Enterprise Risk Management'**, which has been prepared by IOD and being sold at the cost of printing through the IOD Headquarter and Amazon.

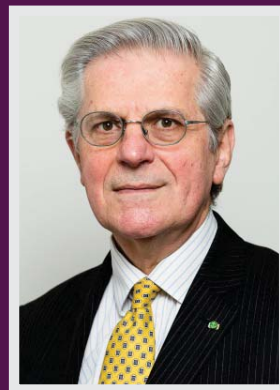
"The biggest risk in business is not taking a risk." Risk does not just reside within your organization, there is a whole world of risk outside



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your doors. Traditionally, organizations have taken a rear-view mirror approach to risk management, relying on post mortem of situations. Such management practices are largely focused on known risks only. Different risks cannot be dealt with separately. Risk management is an interconnected process. The use of analytics helps minimize unpredictability. The network analytic helps diagnose the relative fragility of the supply chain. Supply chains are either risk blind or risk resilient; therefore, transparency and flexibility are required to mitigate supply chain disruptions. Organizations have long relied on global interconnected supply chains to improve margins and create a lean global network. Operational risks to supply chains had been affected by geopolitical and trade wars but Covid-19 has revealed its real vulnerability. A comprehensive understanding of supply chain risks and vulnerabilities, makes it fragile and susceptible to unforeseen events. Another concern is Cyber Risk, as India pushes ahead with digitization. As new opportunities in all existing areas, digitization is a data-driven approach requiring businesses to discover their need of cyber security. Cyber threats are increasing exponentially; we must focus on managing cyber risk. "The cost of responding to cyber-attacks has surged up causing operational disruptions, financial losses and potential erosion of the company's reputation and this is never coming to an end", he warned.

Our honored partner for the Global Webinar was **INSEAD Corporate Governance Centre, INSEAD, Asia Campus (Singapore)** - The Business School of the World. INSEAD is the world's leading and largest graduate business school, offering participants a truly global educational experience. With locations in Europe (France), Asia (Singapore), the Middle East (Abu Dhabi) and North America (San Francisco) and alliances with top institutions, INSEAD's business education and research spans the globe.

"I have had the privilege of visiting this Institute twice last year. In the last visit in December 2019, IOD lead a study tour of approximately 70-80 senior directors and executives to the INSEAD Asia campus in Singapore. This was part of the IOD's annual 4th Singapore Global Convention, which was held in Singapore from January 16-18, 2020. It was attended by around 300 participants from 9 countries and around the globe. Singapore is India's largest foreign direct investor, and as such we are keen to see how INSEAD is working in Singapore, in the said Corporate Governance Center- our host. It was an extremely useful and enriching visit", the President recalled.

The visit started with a very inspiring one-hour Keynote Address by the renowned award-winning **Prof. Anil Gaba** at INSEAD Asia center. He delivered a very scintillating talk followed by a long and detailed question-answer session on risk and uncertainty, about how we can prepare for it, if empathy is emphasized, also on the importance of understanding risk of products and services that a company offers. He covered mathematical models that are being used by organizations for risk management across the globe. He showed, how simple line models are better than complex modules and that combining predictability from different models improves the accuracy of findings. To see the most real-life situations, have a combination of predictions and uncertainties and we need to train people to improve human judgment.

Prof. Gaba has also co-authored the book- "**Dance with Chance: Making Luck Work for You**" and it is very interesting to note that in this book the authors argue, that by understanding how uncertainty operates you can make palpable improvements in happiness, health, wealth and your careers. "I think we all here agree that Covid-19 has hugely impacted all of mankind", the President finished.

Next was the **Keynote Address* by Prof. Anil Gaba**, INSEAD Professor

of Decision Sciences; The ORPAR Chaired Professor of Risk Management; Academic Director, Centre for Decision Making and Risk Analysis.

Prof. Gaba shared his point of view on some of the uncertainties that we are facing currently in the Covid-19 situation. Even though many countries are beginning to come out of a lockdown. Yet, there continues to be a lot of noise in the press. In many countries, there is a growing gap between scientists, policymakers and everyone is still a little confused as to what is going on, where are we going to end up, how long is this situation going to continue and so on. He tried to demystify some of these uncertainties, that might help in the role of the Boards, to craft new strategies. We need to understand that we are dealing with a macro-environment.

On the Global Status of the Pandemic

Prof. Gaba pointed out that countries like Taiwan, New Zealand, Australia, and South Korea have no growth in Covid-19 cases. China's growth rate has been zero for quite some time now. Whereas, the growth rate in European countries has kind of disappeared, and the growth curve has flattened. Cases are still on the rise in the United States of America, and India 's growth rate is actually doubling every 7 to 8 days.

On Recorded Deaths

According to Prof. Gaba, statistics may vary from the actual deaths and are probably greater than confirmed deaths because this depends on testing strategy and attribution strategy. For example, some countries only report deaths in hospitals with confirmed cases of Covid-19. There are other countries which are more liberal in this definition. "Countries like Taiwan, New Zealand, Australia, and South Korea are doing good in containing the virus", he commented. The growth rate in deaths has stabilized in European countries. Whereas, the same has decreased in the US; it is still a positive rate. In India, it is still going up.

On Testing by Countries

Some countries are doing better than others, based on per capita testing. Countries like Brazil, India, Taiwan and South Korea have very low per capita testing. On the other end, in US, UK and Singapore, per capita testing has been high.

On Numbers and Facts

- **Numbers and facts** published in the press, reports or by governments, we should keep in mind that numbers in this context are not some kinds of unconditional facts or truths. They are all conditional on choices and knowledge gaps.
- **Data collection method** is vastly different in every country. So, it is not as if each country is filling in some common spreadsheet. The data collection is different, how they attribute deaths is different, and how they report each case is different.
- **Testing strategy** varies from country to country. The virus contagion which depends on comorbid conditions and healthcare infrastructure is very different across countries. For example - obesity, hypertension and diabetes are strongly correlated with risk factors related to this virus and hence, we can see different numbers
- **Preventive measures** taken in each country is vastly different.

We may have the most sophisticated data analysis techniques available, but the same issue implies 'garbage in, garbage out'. We must be careful about how we interpret these numbers. There are a lot

of nuances involved and this has been the primary difficulty for health authorities to figure out what exactly is the mortality rate due to this virus. In other words, if you are in India as opposed to Germany, what is your risk of infection and what is your risk of death from the infection. This has become a very complex task and we still don't know much about it, mainly because the data collection has not been uniformed and the numbers we see are completely conditional on choices.

On Excess Deaths

A small sample of a study was done by 'The Economist' on Excess Deaths. Prof. Gaba shared an example:

In UK, to calculate what are the excess deaths during the month of May 2020, they look at the average number of deaths during the month of May over the past five years and compare that with the number of deaths observed in totality in May 2020. The results of May 2020 suggested that the number of deaths has been much more than what we typically observe in the month of May. This is the idea of total excess deaths.

The above example is just to highlight the effort, going on by researchers to try and understand what exactly is going on, and address questions such as- what is the mortality rate?; what is the infection rate?; where are countries heading to?; are they bending the curve?; and so on. It has been a complex task. So, despite having access to machine learning algorithms, AI techniques and all kinds of sophisticated statistical models, we know at the core, we still face the serious issues of how to interpret the numbers, what to input into our models and so on.

On Back to Headlines in Mid-March

- In Mid-March, many countries sprung into action. There was a growing call to action, especially in the U.S. after watching what had happened in Wuhan, Italy, France, and New York. So, in mid March, CDC estimated that if you do not do anything in the US, you are likely to see anywhere from 2 lakh to 1.7 million deaths in the United States. The very wide range was given because of the difficulty in estimating what was going on, given that the data reporting in the data collection technique, testing strategy, preventive measures had been quite different in different countries.
- At the same time, there was a very influential paper which came out of Imperial College, London, which estimated the United States to witness around 2.2 million deaths, if you don't do anything. This moved governments into action, and they began to consider different propositions in terms of what they should do.

Some Propositions to handle Covid-19

I. Herd Immunity

- The idea was to let the virus run wild. Most people will not die. As soon as 60-80% of the population gets infected, they will build some natural immunity and hence, any further spread will stop.
 - This was a very risky strategy likely to lead to very unacceptable number of deaths, estimated in millions.
 - There was ambiguity around immunity. If people get the infection, could they get it again? Biologists were not sure about the duration of immunity. They were worried, about the possibility of virus mutation and its impact on immunity.

II. Selective Confinement by Personal Risk [Comorbidities]

- Isolate the elderly people or those who have obesity, diabetes, hypertension, etc. This selective cocooning of society was clearly

impractical.

- It was a very facile argument because this is not an individual risk problem, it is a social problem.
- This assumes that you can take on society as it is organized, and quickly reorganize it into different units by 'high risk' and 'low risk'.
- The 'low income groups' suffered in most countries because they don't have the luxury to shelter at home, forced to use public transportation, not able to work remotely, live in crowded homes, don't have access to preventive measures and people working in essential services may have spread the virus to their folks.

III. Complete Shutdown until a Vaccine and/ or a Robust Therapeutic Treatment

It was practically not possible due to an extremely high economic cost involved.

IV. The Hammer and the Dance

Most countries converge to this proposition. This idea came out of a very influential paper. It compared three things:

- i. **Do Nothing** - This was clearly unacceptable. The estimates said that if you don't do anything, the health infrastructure in most parts of the world will get completely overwhelmed and they would not be able to treat any cases. There will be a massive run on the ICU beds in hospitals and it will actually increase collateral damage, where people for non-Covid19 case type of emergencies and other situations, won't be able to get treatment. The estimates for the number of deaths around the world with this approach in different countries was in millions and extremely high.
- ii. **Mitigation** - Let us not lockdown people, keep everything open but introduce a few rules like avoid crowded places, lot of self regulation, in terms of preventive protocols, etc. A kind of a strategy which Sweden has been following. But again in this scenario too, most estimates suggested, the run on infrastructure would still be too high and there would be a very high number of deaths which would be unacceptable.
- iii. **The Hammer and the Dance** - Suppress/ hammer down the virus, basically a shutdown. Do quarantines, self-imposed quarantines, some legally enforced quarantines - closed schools, restaurants, crowded places, bars and take other preventive measures. Continue doing so, until you have really suppressed the growth rate of the virus. This is called **hammer down**. This is what New Zealand, Australia, Taiwan, South Korea and Singapore tried to do early on. Once you have suppressed the growth rate; then you experiment slightly, you may ease some restrictions and you keep a close eye on what is going on and the moment you see another up-surge in the virus, you again re-impose preventive measures to keep the growth rate down. This is called the **dance part**.

Most countries followed this, **the Hammer and the Dance** strategy.

They followed the suppression method and it was not easily acceptable to many people, in many parts of the world. The duration of lockdown was conditional on culture and politics. It was expected that there would be a significant impact on the economy and a hidden fear that the virus might re-surface, once we open up.

There is a value of time. At the first level, you will reduce the fatality rate and collateral damage and keep it manageable. Provide some relief for

the health care system and people who are running it. For example - in Italy, Spain and New York, there were healthcare workers who did not have access to PPE equipment. The idea was to take a step back, give these people a breather. While we are hammering down the virus, let us quickly build up our capacity, inventory stockpile of PPE, mass ICU units and increase quarantine capacity. In the meantime, we can potentially learn how to treat this virus and understand some costs and benefits of different strategies. There was huge value of 'time', which basically led many countries to adopt this hammer approach.

Many scientists around the world have come together and are working full-time to find a vaccine and at the same time, a good therapeutic treatment. In Italy, Spain, Wuhan and New York, they were incubating people too early and later found that it was not required, even if their oxygen levels were very low. Some non-intrusive oxygen treatment could help them recover. This is an example of how to use time, to learn more about therapeutic treatments and make other progresses simultaneously.

Govt. Measures across the Globe from February 1, 2020 – Until Now

The measures were strict only in China, otherwise most of the world was still quite relaxed. This started to change by mid-March and by end March, the entire world had shut down and it continues to do so even now. Recently, Wuhan and some countries have started to open.

Are Countries bending the Curve?

Countries like Australia, South Korea, New Zealand and Singapore have been able to bend the curve and reduce the growth rate in number of deaths and in fact, make it negative. European countries have been able to bend the curve but not as much as Singapore, New Zealand, Australia and South Korea, because they went into a lockdown too late. Hence, they face a bigger uphill task to bend the curve now. India unfortunately has an upward growth rate in the number of per-capita deaths and even the mortality rate is on the upward swing.

Experience of various countries in handling Covid-19, so far:

Our experiences offer the following:

- There were travel restrictions.
- There were Test, Trace and Quarantine [TTQ] restrictions where South Korea, Taiwan, Israel, Iceland and Kerala [India] did an excellent job.
- There was a strict and swift lockdown in China, India, Greece and Eastern Europe.
- All of the above measures were followed by Singapore, Germany and Norway.
- We begin to see some cautious exit from the lockdown in China, Spain, Italy, Austria, Denmark, Germany, Switzerland and South Korea.

This implies we do not need a Wuhan model to deal with Covid-19. Many people argued that we are not like China or a communist, with centralized government having military behind it. Australia and New Zealand are liberal democracies who fought this situation and the lesson we learned is to use expertise, display competent leadership and create transparency and also, trust the public.

A view into the Counterfactual

There was an article in 'Nature' on June 08, where they try to provide a view into the counterfactual, in the sense that what if we had not gone into shutdown across countries, what would have happened? Currently,

many people also say, the lockdown is not serious; the number of deaths is much lower than stated.

We should not forget that the growth rate, the infection rate, the death rate and the total number of infections is conditional on the choices different countries made. So, an article came out where some epidemiologists argued that in 11 European countries, if they had not done what they did, there would have been 3 million deaths in addition to the current statistics.

A similar group made a calculation, that there may have been 5 million more infections in six countries, if these confinements had not been put in place. These studies provide a view into the counterfactual for the public, so they don't think that all this was an overreaction.

The Beginning of the End Dance or The End of the Beginning Dance

How to go ahead?

- i. Have a lockdown
- ii. Do a cautious exit
- iii. Be compliant, decide the measures to be put in place
- iv. Keep on dancing until there is a vaccine/cure
- v. Keep growth rate in the infections low

Finding a vaccine/cure is uncertain and the optimistic range is 12 months but, at the same time there is a lot of confidence, given the amount of research going on. For HIV, they could not find a vaccination because HIV positive patients do not produce the kind of reactive antibodies that people produce with coronavirus. An optimistic estimate is 12 to 18 months.

There is a demand for precise predictions. Although we have machine learning and AI today, we are unable to eliminate uncertainty, because there is a lot of irreducible uncertainty, as we don't really understand many factors yet.

Lessons from History

We can learn from major pandemics in the past and take required actions.

- During the **Spanish Flu**, there was a first wave, then people started to relax and there was a much more disastrous second wave and a third wave too.
- In **Philadelphia** – They basically waited too long before taking any measures. Hence, it led to a very high number of deaths.
- In **San Francisco** – Govt. started in time but, they relaxed the measures too soon. Hence, there was a second wave.
- In **New York** – Govt. started early, kept the measures in place for a while and prevented a second wave.
- In **St. Louis** – It started well but opened too early and led to a second wave.

Conclusion - It is not just our experiences so far, but also lessons from history, point to the same kind of evidence in favor of 'The Hammer and the Dance' proposition.

The Nature of Things this Time

The economic crisis started with a health shock and the humanitarian crisis resulting from this health crisis has led to an economic crisis. Also, it is global not local; and sequential, not simultaneous. There is a false dichotomy put forward by many people, that the economy would collapse. There is near unanimity among whole economies that **'this is**

not an economic issue, it is merely a health issue! Another point is that, you do not have to be like China to solve this issue or contain this. Liberal democracies like New Zealand, Australia, South Korea, Germany and Singapore, through a combination of cooperation with the public government, induced measures, good leadership, creating transparency and trust has led to good outcomes.

There is not likely to be any return to “normal”, unless we get a good vaccination or a cure; and the dance will continue. “We need to keep our health infrastructure robust, introduce more testing, develop tracing and quarantine capacity, and a lot of research and development which is going on at a massive scale. It will have to be a combination of institutions, policies, innovation and some luck on our side to fight this pandemic”, Prof. Gaba concluded.

A brief **Q&A Session** was moderated by **Prof. Colin Coulson-Thomas**, President - Institute of Management Services, UK; Director General – UK & Europe Operations, Institute of Directors, India. He thanked Prof. Anil Gaba for an insightful and concise overview of the Covid-19 pandemic. The questions related to the roles and functions of the Boards, and how they should operate under trying times.

Q. What kind risk oversight and risk management in the uncertainty of the pandemic?

Prof. Anil Gaba - Imagine you are sitting on a boat. The management comes to you with a budget for next year. What is the implication of what you have heard on that? The estimates you will get today are going to be too over confident. The forecast will be too precise and will represent spurious accuracy. On the revenue side, the range of possibility is going to be very high because we don't know. It appears that countries are opening up economic activities on the up-swing; hence things will begin to get more stable, but it is actually a fallacy and false over confidence. For example - The unemployment report of the United States showed that the U.S. had actually generated 2.5 million jobs. The stock markets reacted very positively and went up through the roof. The Bureau of Labor Statistics pointed out that we have to be mindful with data collection and in this climate, there could be a misclassification error where we classified a lot of people as employed whereas they should be unemployed. There is lots of uncertainty which has direct implications for risk management.

As a Board, it is your duty to push management to cushion all these estimates. The numbers would be much tighter than they ought to be. The buffers, agility and contingency planning are very important in getting a clarification on the assumptions behind the numbers in terms of the scenarios and their judgments. Boards have to intelligently steer through a changing situation. The working relationship between the management and the Board would require more transparency and trust. Boards need to re-think the distinction between the roles of directors and managers. Stakeholders should be consulted. Behind any good robust group decision making, diversity in Board plays a key role. By diversity I mean people who have different windows into the world, who are independent in their thinking and not co-related. The role of the Chair should be to create an inclusive process and mitigate hidden agendas, power politics and create a good constructive environment for leveraging diversity and independence of thoughts.

Q. With whom should a Chief Executive Officer speak to get balanced advice? How can a Chairman understand the reaction of the Board towards Covid-19? We are in a crisis situation, and all of a sudden some people disappear and other people come to the fore.

Prof. Anil Gaba - Ms. Angela Merkel, Germany has surrounded herself

with a new group of people which comprises of biologist, epidemiologists, sociologists and economist i.e. people who are looking at the world from a very different window and she is listening to each one of them and trying to make them tradeoffs. This way, she has all the risks and uncertainties highlighted in a more unambiguous manner. So, similarly a CEO or the Chair of the Board needs to create additional windows into the world where you get more independent perspectives in terms of economics, markets and supply chains. The Boards may include additional people who can provide new windows into the world.

Q. Before Covid-19, people were worried about recession, global warming, lack of biodiversity, degradation of the environment etc. How can we ensure the Board operates efficiently and does not rush to old business models, that were causing those problems and unsustainability? How to use this as an opportunity, to re-think corporate purpose, to prioritize and move forward in a more sustainable way?

Prof. Anil Gaba - It is a big challenge and I think it will separate the good leaders from the bad leaders. This is a little bit conditional on the much bigger debate that has started and likely to continue in different societies related to economic inequality. For example - in the United States of America the current protests started on the premise of racial inequality, but have now gathered a much larger purpose highlighting also the economic inequality. Many business leaders have stepped in because of a vacuum in political leadership. This is also an effort to make a more sustainable environment with stronger and robust relationships with the world.

Boards have to create new opportunities, deal with a new normal, accept a higher degree of risk in terms of adapting new business models. It is necessary to open up a different set of windows into the world. Hopefully, the world will learn from this crisis.

Prof. Colin summed up the **Q&A** by lauding the concept of macro thinking and taking into account that overall environmental impact. He further added that wide diversity in future boards will lead to better results.

Mr. Pradeep Chaturvedi, Vice-President, Institute of Directors, India thanked Prof. Gaba, Prof. Colin and all the participants who participated in large numbers and contributed their knowledge through questions and interactions. He added that IOD is fully geared now towards remodeling the Board's thinking and future strategy to meet the new challenges posed by Covid-19. He reiterated the important highlights of the all the distinguished speakers and the use of technology in the Boardrooms.

**Please note, all data mentioned herein is as on date of this webinar.* ■

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