

Is the Digitalisation Solution to COVID-19: A Corporate Governance Perspective

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Abstract

COVID-19 has affected almost all spheres of life. Many researchers focus on the impact of this pandemic on economic, social and political spheres neglecting its effects on the pillars of corporate governance. This paper explores the impacts of COVID-19 on corporate governance in Africa. This paper consulted a number of secondary sources in order to fill the inadequacy in academic gap on COVID-19 and corporate governance. This paper established that COVID-19 has adversely affected the corporate governance practices; cancellation and postponement of important meetings. Companies are advised to adopt alternative digital communication platforms to convey important information to stakeholders.

Keywords: COVID-19, Corporate Governance, accountability, 21st century, 4.0

1. Introduction

The disruptive effects of COVID-19 on the socio-economic environments are widespread (International Corporate Governance Network (ICGN), 2020; Bohoslavsky, 2020; UNWTO, 2020; African Union, 2020). Such disruptive effects ranging from short term to long-term aftereffects of COVID-19 are well documented in the media. Economists around the world are predicting a worse recession than the global recession of 2008. Experts believed that the negative impact of COVID-19 will be experienced in education sector, mining, tourism, and the global supply chains (James, 2020; UN, 2020). Emerging economies including Africa will be severely affected by the epidemic due to poor public-health facilities (James, 2020). While acknowledging the negative impacts of COVID-19 on the economic activity and financial markets, ICGN(2020:2) further states that “The on-going- and profound- uncertainties create great challenges for corporates, their boards and their investors as they contemplate how best to navigate these difficult and dynamic times.” Estimates on the socio-economic losses as a result of the implementation of COVID containment measures are well documented in the literature, however very scanty information on the effects of COVID-19 on corporate governance principles and procedures. Interestingly, COVID-19 epidemic is also having real disruptive and negative impacts on corporate governance as well. It is vital to note that companies with weaker and poor governance practices will be affected most than those with sound corporate governance structures (Lin et al, 2020). International Corporate Governance Network raised 12 crucial questions of great concern in the current and future studies. The following are some of the questions raised by ICGN:

1. How does the board get information about the crisis and demonstrate that it has an adequate and up to date understanding of the risk faced by the organisation?
2. Does the board have access to internal or external subject matter experts on COVID-19 to support decision making?
3. How is the board addressing the crisis and its impact on employees, customers, supply chains and local communities?
4. How will the company communicate the economic impacts and threat to the company’s financial sustainability and business model? (ICGN, 2020:5).

This paper explores the impact of COVID-19 on corporate governance lens in Africa and beyond.

2. Understanding of Pandemic and Coronavirus

Many traced the history of pandemic (Morens, Folkers & Fauci, 2009; Dosh, 2011). Researchers found out that there is

definitional controversy surrounding pandemic (Guha-Sapir & Hoyois, 2011). Various epidemiologic variables have been used to gain an understanding of a pandemic (James, 2020). A more controversial definition was provided in the literature (Last (2001) cited in Kelly, 2011). Literature provided a lists of worse pandemic in the world dated from 1635, 1637, 1827, 1889, 1918, 1957, 1968, 1976, 1977,2009, 2014 and (AU, 2015; David et al., 2009; Dosh, 2011; Maphanga & Henama, 2019; United Nations, 2015a) their devastating effects on the socio-economic environments (Fan, Jamison & Summers, 2018: 129; Jerning, 2019; Homeland Security Council, 2005; Skidmore & Toya, 2002; Kim, 2019; Adegoke, 2020; AU, 2020; Mckibbin & Fernando, 2020; Smith et al., 2019; Maphanga & Henama, 2019; United Nation, 2015; United Nations, 2015a; Charatan, 2005; Homeland Security Council, 2005; World Bank, 2016).

On 8 December 2019, the city of Wuhan, Hubei Province, China first recorded the coronavirus (COVID-19) (Sadati, Lankarani & Lankarani, 2020; World Health Organisation, 2020; Mckibbin & Fernando, 2020). Scientists, theologians and academics have tried to gather evidence to understand the origin of coronavirus disease with little success. Controversial evidence suggests that it has originated from SARS-CoV-2 virus (Mckibbin & Fernando, 2020). Some scholars believed that the viruses are zoonotic (Grunow & Finke, 2002), implying that they originate from animals then transmitted to human being (Abaido & Takshe, 2020). Unusual outbreak and widespread of disease in the world occasionally have been associated with artificially triggered epidemic (Grunow & Finke, 2002: 511). This controversy resulted in many scholars from multiple-disciplines hypothesising and analysing COVID-19 pandemic (Abaido & Takshe, 2020:123). Various scholars understood COVID-19 from different angles and theories include the conspiracy theory, seafood market conspiracy, the '5 G' conspiracy, hoax or an imposition to military or totalitarian rule (ISD, 2020). However, social media was flooded with conspiracies about the origin of this widespread epidemic.

According to Oliver and Wood (2014) cited in Abaido and Takshe (2020), during an outbreak of epidemic or crisis such as the COVID-19, conspiracy theories rise to create more confusion or chaos in the world. Conspiracy theory holds that coronavirus emanates from "a biological war" rather than a natural disaster (Abaido & Takshe, 2020; ISD, 2020). This means that the virus has "has an artificial cause" (Grunow & Finke, 2002:512). This theory has widely received critics and reputed by several scientists. The anti-conspiracy theory believed that this assumption has caused more harm than good include "instigate xenophobia in societies, triggering violent social behaviour" (Abaido & Takshe, 2020:123; James, 2020). The COVID-19 has perpetuated discrimination and racist attacks. This will in turn "could undermine efforts to deal with the crisis and its growth" (ISD, 2020: 2). Currently, there is no scientific evidence to substantiate the claims of conspiracy theory.

2.1 Corporate Governance

Circumstances leading to the surge of corporate governance are well documented (UN, 2003; McDonough, 2002; Zhuang, 1999). Corporate governance is a central premise to the success of the organisation (small and large). Experts believe that high corporate governance standards are key to the continuity and performance of an organisation. Strong corporate governance standards cement the relationship between investors and stakeholders of the company (LSE, 2012; Zhuang, 1999). Extant literature listed a number of guiding principles or codes that prescribe how large corporate are run such as UK Corporate Governance Code, Sarbanes Oxley Act, Cadbury Code, South Africa's King 1, II, III and IV reports (Vagneur, 2004). In some jurisdiction, codes of governance are not mandatory. For example in UK they follow "comply or explain" rule (LSE, 2012), however, all companies are encouraged to adhere to these corporate governance principles. It should be understood that the adherence to codes is not enough but it should go beyond relationships and trust (LSE, 2012; OECD, 2015, Nadaf & Navi, 2017). OECD outlines:

The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies (2015: 7).

It is widely agreed that there is no one size fit all approach, companies should thrive to do what is right in their circumstance and maintain shareholder interfacing (LSE, 2012; Vagneur, 2004). In reality, there are some certain values or principles that are universally applied to all companies regardless of size such as , practices articulated in many global governance principles covering the board of directors, corporate culture, risk management, remuneration, audit, and shareholders' rights and responsibilities (LSE, 2012; Nadaf & Navi, 2017). Researchers observe that good corporate governance practices create strong, positive culture and risk management (LSE, 2012; Vagneur, 2004) and prevent corporate scandals (Nadaf & Navi, 2017; McDonough, 2002;) within the corporate world. Companies with strong corporate governance have mitigating measures in place against risk and uncertainties (OECD, 2015). Literature outlines merits of observing good corporate governance (Nadaf & Navi, 2017; McDonough, 2002). Corporate governance code outlines the roles and responsibilities of investors, shareholders and management in the affairs of the company (OECD, 2015; Nadaf & Navi, 2017). The most fundamental rule is the protection of investor's wealth (OECD, 2015; Nadaf & Navi, 2017) and their participation in the corporate strategic decisions. Poor corporate governance will cause devastating damages to the companies such as loss of shareholder value.

3. Methodology

The article is theoretical and descriptive in nature. This paper used a number of sources in order to fill the inadequacy in academic gap on COVID-19 and corporate governance.

4. Implications, Conclusion and Recommendations

Available evidence shows that the pandemic (COVID-19) will affect corporate governance in the “near term future and long term dimensions” (ICGN, 2020). Many companies in Africa are expected to adjust in terms of their approach to operations and decisions especially regarding: (i) the company's strategy to deal with the COVID-19 crisis, (ii) the manner in which the company's cash flow and employees need to be managed during this period, (iii) potential redundancy procedures under employment law, (iv) providing financial assistance within the group, or (v) seeking contractual relief (CLYDE & CO, 2020) due to the notable effects of COVID-19. It is important that management should be proactive in taking these decisions because they will affect the future of the company.

Reaction of companies to COVID-19

Many companies have closed their operations in a bid to protect the employees and their families except those companies classified as essential services (Bohoslavsky, 2020; ILO, 2020). Companies educate and provide some counselling sessions to its employees who are infected. Companies with risk management policies in place are at an advantage than those without because they are trying to create risk management policy within a risk. This means that these companies are reactive rather than proactive.

Welfare of workers

ILO (2020a:2) states that due to some “...massive economic disruption, the COVID-19 crisis is affecting the world's workforce of 3.3 billion”. An estimated 2.7 billion jobs are at risk due to the fact that companies will be trying to protect income losses (ILO, 2020a; UN, 2020; Bohoslavsky, 2020; Bilal et al., 2020). Governments issued a directive that companies must continue supporting their employees even if they are not at work. Companies are dialoguing with their workers so as to reach a common goal (ILO, 2020; (ILO, 2020a).

It is projected that more 19 to 22 million people are likely to lose their jobs in Africa due to coronavirus (Bilal et al., 2020). Companies have been forced to evaluate and analyse the immediate health, social and economic factors facing their immediate survival without losing grip on their long-term projections. Workers have been classified as essential and non-essential workers. This has created panic and uncertainty within the workers especially to those classified as non-essential workers. The “work from home” concept is prone to hacking by hackers, so companies should develop some sophisticated application to protect their organisational confidential information.

Board composition

Recent studies indicate that most executive and non-executive directors long pass 65 years. Clinical tests show that people who are over 65 years are at risk of being infected by COVID-19 (WHO, 2020; ILO, 2020). This means that board should focus on renewal programs be implemented. In view of (Global Webinar Participants, 2020) during presentations in the global webinar, directors' roles were examined and that for example the Australian government took an initiative to introduce a statutory amendment suspecting directors' liability for insolvent trading where the concerned can no longer afford to pay their debts. That means, incurring obligations while the company is facing insolvency, with similar proposals being made in a growing number of countries. The panel also considered this initiative as well as the broader theme of changing director duties in a time of global catastrophe that may lead to financial distress and or even failure in plentiful firms.

Annual General Meetings

Implementing containment measures such as extreme social distancing, lockdown, stay at home, work at home, and travel restrictions resulted in the postponement or cancellation of crucial meetings in both developed and developing countries. The Instructional Shareholder Services (ISS) is on the other hand advising corporate to find alternative communication platforms such as webcasts, conference calls and other electronic communication media to engage with shareholders and investors (Lin et al., 2020). Furthermore, companies have been advised to use virtual meeting platforms during crisis period. Such platforms will provide full participation of shareholders in the meetings and to engage with directors and executive management. Unfortunately, very few companies in Africa in particular utilise these e-communication platforms (zoom or Skype or Webchat or web cast) hence important meetings have been postponed (Sullivan & Cromwell, 2020). This is also been attributed to lack of access to internet and ICT related task tools and also cyber security issues.

Disclosure and explanation

Many companies are found to be in catch-22 due to numerous changes particularly regarding temporary pay cuts and

retrenchments of employees, share issuances, private placements, (ILO, 2020; Lin et al., 2020; ILO, 2020a; OECD, 2015). This means companies should disclose a detailed rationale relating to the changes to both shareholders and employees the implications of proposed adjustments. Thus according to Lin et al. (2020) the board must “provide shareholders with disclosure now to afford greater insights into the board’s rationale and circumstances at the time changes are made”

2020 incentive compensation programs

There are some major shift that are likely to be effected due to the current crisis such as changes to performance metrics, goals or targets and option repricings (Lin et al., 2020). Bohoslavsky (2020) and Bilal et al. (2020) predicted a worse economic recession than that of 2008 due to coronavirus pandemic. This calls for changes in the way business is to be conducted. Such changes are inevitable but companies must provide a contemporaneous rationale for such actions. The board can implement the repricing (undervalue) option due to the pandemic without consent of the shareholders.

The COVID-19 was untimely and many companies were caught unaware. According to Kucera, et al. (2020) many companies were either in the process of, or had just completed the process of, setting performance targets for the current performance period such as performance equity and annual bonuses. It must be noted that, with the emergence of the epidemic, it is likely that companies’ performance targets could not be realised and therefore making it hard to introduce incentive programs on their employees. Besides, most companies reserve the right to change their targets and consequently, changing their tabled incentive programs across their structures, until business conditions stabilise.

However, due to the scourge, some companies have implemented pay reductions either on a case by case basis or across the executive ranks. For example, it has been identified that certain arrangements such as employment agreements and severance payments arrangements may thrive in during this crisis. With the implementation of this particular arrangement, executives would either be able to terminate service or receive a generous severance package (Kucera, et al., 2020).

Capital structure and payouts

The negative effects of COVID-19, including share repurchases (buybacks) and capital injection through share issuances and private placements (Lin et al., 2020; Bohoslavsky, 2020). Currently, boards of many companies world over are considering repurchases or buyback. This will have a reputational implications coupled by a further downsizing. The companies may be willing to issues shares as a way of recapitalisation drive, however, such capital raising may be risky hence no takers are ready for it. Many investors are delaying theirs investments because of uncertainty and fears (ILO, 2020).

Liquidity and Capitalization Considerations

Liquidity is one critical area of focus during the COVID-19 pandemic and it must be acknowledged that most firms did not anticipate the dramatic slowdown of the global economy, in which some researcher have expressed that the current crisis more complex and extreme in comparison to the 2008 crisis (Global Webinar Participants, 2020). With that being mentioned, directors ought to receive periodic updates form management with respect to the company’s liquidity and capital considerations and warrant that any issues in this regard are equally addressed. Besides, company directors in this regard may also consider suspending companies’ dividends to preserve cash.

Corporate social responsibility

Most companies around the continent are contributing to the COVID-19 fund. There are signals that those companies or organisations that do not contribute towards the fight against pandemic will not be given stimulus packages. In turn the government is going to wave or defer their tax obligations during the 2020 financial year.

5. Conclusion

From the above discussions, it is evident that the COVID-19 has impacted corporate governance practices of both big and small organisation in Africa. This is so because many developing countries did not invest heavily on digital systems. This paper concludes that COVID-19 has transformed the normal systems of business. It has been observed that there is policy inconsistency in responding to corporate governance matters in the midst of this deadly pandemic (COVID-19).

6. Recommendations

This paper recommends that during the times of crisis (current or future) companies should adopt different alternatives platforms to convey information to stakeholders such as electronic communication, telephone and other available social platforms. This is done to enable shareholders and other investors to make sound decisions (Lin et al., 2020).

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