CORPORATE GOVERNANCE BEYOND THE COVID-19 CRISIS - ASSESSING THE KEY RISKS AND REDEFINING THE PRIORITIES

28.05.2020

Răzvan Butucaru
Partner, Financial Services & Advisory Leader
Organizations need a refreshed approach from a corporate governance perspective.

Disruption and change are already influencing the corporate governance priorities: making them adaptable and fit for purpose.

A customized corporate governance framework helps organizations build and shape their controlled environments in the context of:
- home-working arrangements;
- managing effectively their investor communication;
- risk management and internal control system.
We analyzed the responses of 75 listed companies (out of 86) on corporate governance.

Years as a reference period: 2017 and 2018.

Average implementation rate of the compliance level: 57% in 2017 and 60% in 2018.

Sections represented the provisions of the BVB Corporate Governance Code:

- **Section A**: Responsibilities (11 criteria)
- **Section B**: Risk management & internal control system (12 criteria)
- **Section C**: Fair reward & motivation (4 criteria)
- **Section D**: Adding value through investor relationship (10 criteria)
THE EXTENT OF COMPLIANCE ACC. TO THE CODE’S RECOMMENDATIONS 1/2

In order to sustain their **business objectives** and ensure **continuous and sustainable growth** and **transparency**, companies need to:

- Establish effective corporate governance strategies
- Implement pragmatic internal controls
- Implement effective internal audit functions

4% of the analyzed companies accomplished **100% compliance level**

**GRAPH 1: NUMBER OF COMPANIES AND THEIR COMPLIANCE LEVEL IN 2018 VS. 2017**

- % of total companies in 2017
- % of total companies in 2018

<table>
<thead>
<tr>
<th>Compliance Level</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;80%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>50%-79%</td>
<td>43%</td>
<td>52%</td>
</tr>
<tr>
<td>&lt;50%</td>
<td>37%</td>
<td>28%</td>
</tr>
</tbody>
</table>
The companies listed for over 10 years on the Romanian market, registered the lowest average compliance level compared to the most recently listed companies.

Considering the market capitalization of the companies, we noticed that the compliance level increases with the capitalization value.
Out of the 53 recommendations of the BVB Corp. Gov. Code, 66% of them had an increase of the implementation rate.

There are 16 recommendations with an improvement rate of over 5%:

Graph 4: The Evolution of Recommendations

Graph 5: Number of Recommendations with the Highest Improvement Rate
SECTION D (ADDING VALUE THROUGH IR) REGISTERS THE HIGHEST LEVEL OF COMPLIANCE...

The highest level of compliance with the requirements of the Code is reached in Section D – Adding value through investor relationship, with an average compliance level of 75% in both 2017 and 2018 answers.

As opposed to the above, the criteria of Section C – Fair reward and motivation – registered the least number of affirmative answers, the level of compliance registering a decrease of 2% in 2018 compared to the previous year, settling for an average compliance level of 22%.

Section B – Risk management and internal control system – also improved in 2018, having an increase in compliance level of 8%, from 61% in 2017 to 69% in 2018.

Section A – Responsibilities – also registered a low level of compliance, but there was an increase of 2% in 2018 up to 49% (compared to 47% in 2017). An interesting topic is discussed in Section’s A general presentation when speaking about gender diversity and women participation rate within Boards and its committees.
4.2 Forecasting policy (D.3.)
A company should have adopted a policy with respect to forecasts, whether it is made public or not. The forecast policy should be published on the corporate website.

Some of the answers included the high degree of uncertainty specific to the industry or to the non-existence of a legal obligation to define and implement such a policy.

The companies which responded negatively to this recommendation, confirm the existence of a forecasting process, however it is not documented within a policy.
Who is in charge of **Corporate Governance** in your company?:

a) The Board  
b) Audit Committee  
c) Chief Risk Officer  
d) COVID-19

We have enough of Corporate Governance. I don't see our company having to change any time soon.
AN EFFECTIVE CORPORATE GOVERNANCE FRAMEWORK SHOULD HELP ORGANIZATIONS TO:

1. Understand, assess and communicate the full range of immediate risks
2. Assess crisis management and business continuity plans, including IT arrangements
3. Adapt to remote-working, still delivering effective services
4. Communicate timely and useful information to all stakeholders: internal and external
5. Continue to monitor and update the organization’s needs, envisage future risks and think beyond immediate risks
Boards, Audit Committees, Investors and other Stakeholders want insight and assurance that organizations have been able to quickly adapt their operational approach and that it is working effectively considering the increased risk challenges.

These risks could include the ones below, but also others related to the stronger dependency and use of IT as core enabler in the crisis.
There are many ways in which organizations should prepare for the “new normal” and operates after the pandemic recedes. These could be driven by:

- **Changes in the strategy and the operating model**

- **Changes in the IT strategy and architecture including automation of processes**

- **Changes in the customer and supplier relationships and interactions**

An **effective corporate governance framework** contributes to an organization building resilience: an imperative to adapt to the “new normal”. 

**EFFECTIVE CORPORATE GOVERNANCE**
THE ORGANIZATIONAL RESILIENCE FRAMEWORK, IRRESPECTIVE OF SIZE OR SHAPE SHOULD ANALYZE:

GOVERNANCE
Providing oversight, decision making and strategic direction in crisis and change.

RISK MANAGEMENT
Identifying, assessing and mitigating risks to reduce the probability of impact of those risks.

BUSINESS OPTIMISATION
Moving to new ways of working to seize opportunities, respond to inefficiencies, and continuously improve.

DISASTER RECOVERY
Recovering infrastructure, systems, applications and data following a crisis.

CRISIS MANAGEMENT
Responding to a crisis through effective control, communication and management.

BUSINESS CONTINUITY MANAGEMENT
Enabling an effective response to crisis that important services can continue to be delivered.
Webinar: Robotic Process Automation (RPA) in the current context within CEE countries
4th June 2020, 11am

Study: Gender Balance Index 2020: Driving Diversity

REGISTER HERE
READ MORE
THANK YOU!

RĂZVAN BUTUCARU
Partner, Financial Services & Advisory Leader
Razvan.Butucaru@mazars.ro