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Chair of the Future
KENYA & UGANDA EDITION
2021

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Foreword

Welcome to the first edition of the Chair of the Future – Kenya and Uganda. This report forms part of an international series of publications and is based on interviews with Chairs and non-executive directors (NEDs) of leading organizations operating in Kenya and Uganda.

We are incredibly grateful to the 30 Chairs and NEDs who, between 25 August 2021 and 18 October 2021, shared their boards' experiences and reflections on providing board oversight during the COVID-19 pandemic from March 2020. These insights provide valuable guidance on the changes in board priorities for the world beyond the pandemic. In addition, the contributions and insights will undoubtedly support the next generation of Chairs and NEDs.

The COVID-19 pandemic has tested many boards and required more leadership than normal circumstances to navigate the crisis. However, it has presented opportunities for boards to reflect and relook at their businesses from different lenses, shift priorities and address areas lacking.

Although many recurring themes emerged from our conversations with the 30 directors, we took away at least one thought-provoking and decisive new idea or perspective from every interview. We confirmed our supposition – that every individual in the role of Chair and NED brings a unique perspective, great power in dialogue, and the collective wisdom of this experienced group.

In this report, we share the experiences of Chairs and directors interviewed as they transitioned from being executives to NEDs and from NED to Chair, the requirements for effective boards and their views on director remuneration.

We hope that the insights given from these experiences can boost leadership capabilities across different sectors and challenge boards and businesses to enhance corporate governance in our region. We hope that this forms the beginning of many opportunities for Chairs and NEDs to share their experiences, challenge and learn from each other.

We are grateful to everyone, representing over 100 public and private organisations, who gave their time to these conversations. Thank you all.

To honour the Chatham House Rule under which our discussions took place, we have repeated some of the comments made, but they are unattributed.

We hope you find this report helpful, and we look forward to furthering our engagement with you.

Julie Nyang'aya

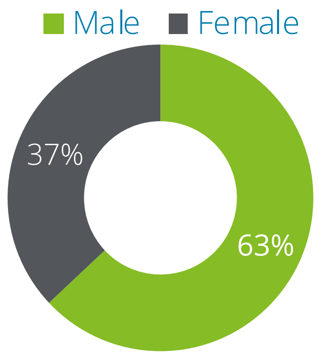
East Africa Risk Advisory Leader
Deloitte Global Center for Corporate Governance
East Africa Representative

Interviewees' Demographics

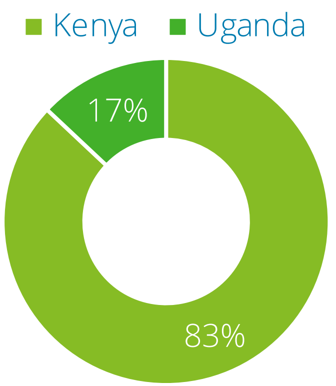
30

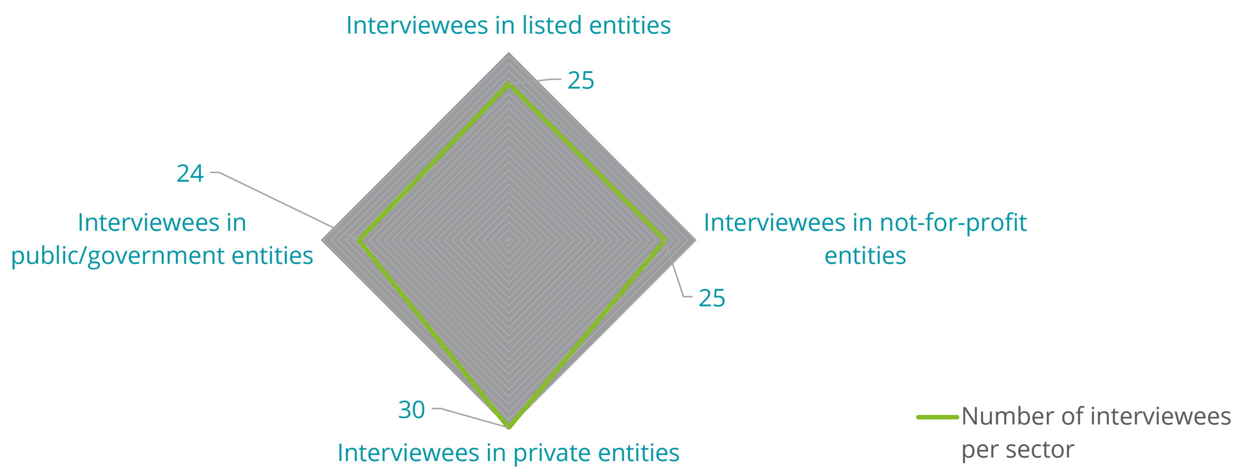
Directors interviewed

Gender representation



Country representation





Chair of the Future - Interview Questions

The Chairs and NEDs experience during the initial disruption of COVID-19 and their reflections and considerations for the future will add value to other Chairs, NEDs and business leaders as they work towards recovery and rebuilding their businesses.

Our interview sessions were themed around seven key areas, as depicted below.

01 CONTEXT

- Please give us your overview of the impact of COVID-19 on the East Africa economies.

02 BUSINESS OPERATIONS AND STRATEGY

- When this crisis hit, what immediate changes did you make?
- How has the disruption prompted you to think about future strategy and the planning horizon differently?
- How has this impacted the board agenda?

03 RUNNING THE BOARD

Many boards have operated differently during the period of lockdown and disruption.

- What have you changed, and what do you intend to retain for future ways of working?

04 SUSTAINABILITY AND BUSINESS PURPOSE

ESG / sustainability is very topical both globally and locally.

- How are the businesses and boards you are on addressing themselves to this development?
- How if any is your business purpose and board oversight changing as a result?

05 STRATEGY

- What are you looking forward to as/when we enter the post-crisis period and what key learnings from this crisis will you be taking on?

06 BEING A CHAIR / NED

- Talk to us about your initial board experiences and what, in retrospect, you wish you knew.
- How did your first Chair role feel different in contrast with being a board member?
- What are the highlights and most significant challenges you faced to date?
- What are your perspectives on board compensation?

07 ADVISE TO FUTURE CHAIRS

- Based on your experiences and learnings to date- what makes a good/ effective NED, Chair, Board?
- As you think about the next generation of Chairs (e.g. your successor), what support would you like them to receive as they transition into the role?
- What pieces of advice would you offer to upcoming board members and Chairs?

Executive Summary

"COVID-19 tested the resilience of our economy and exposed our strengths and fragilities."

Impact of COVID-19 on the East Africa economies

All businesses across the world have felt the impact of the coronavirus (COVID-19). As a result, boards have had to navigate a broad range of issues that span from keeping their employees and customers safe to reorienting operations and navigating the regulatory changes and government directives issued to contain the spread of the virus and cushion businesses as they respond to the crisis.

"The shock effect took a bit of a while to understand, but once clear it was global and uncontrollable in the near term, we calmed down, and the business started to adjust."

"We became more humane and people-focused. There were constant conversations on how the staff were doing and the safety measures required. We also kept tabs on fellow board members through regular check-ins."

Business operations and strategy

Many businesses experienced a negative impact on their performance, with many having to close or scale down their operations leading to layoffs, retrenchments and reduced remunerations. Strategies had to be reviewed more frequently - scenario analysis and planning became the order of the day. Weaknesses in business continuity plans and risk management strategies were exposed. These experiences have given boards a better understanding of risk and what a resilient organisation should be.

"Whatever crisis plan you had, you probably did not plan for a global pandemic."

"The global village is now a reality. Any challenge in any jurisdiction is likely to be felt here, and we need to be prepared."

"In early 2020, I raised the question in a board meeting on whether the organization would be ready if the Coronavirus reached Kenya. I received very perplexed looks with indications that they would see what to do."

"We asked ourselves many questions about our strategy, for example, Will it stand the next pandemic? What changes are required? What new opportunities did COVID-19 present? What are the new emerging risks? How prepared are we?"

Those that survived had to pivot to stay relevant and took decisive measures, including accelerating their digital transformations to allow for continued operations by enabling their staff to work remotely and creating alternative channels for customers to access their services online. For some entities, this meant exploring new routes to market their products as lockdowns and curfews were a new reality, and supply chain networks had been disrupted. Innovation was taken to the next level as businesses reoriented their operations to stay afloat. Going forward, boards must be aware of the risks of adopting new technology and digital strategies. Chairs cited the need to have a digital-savvy board and the importance of diversity of skills.

"The digital acceleration was like that from traditional handsets to mobile phones."

"We need to solve for time and distance through digital engagement."

"Using Robotic Process Automation (RPA), we moved application processing from 5 days by humans to 1 day by RPA with 97% accuracy."

"We had to relook at our whole supply chain and route to market for sustainability, including the need to build local sourcing capacities."

The impact of COVID-19 will be long lasting. The thought of returning to what was once viewed as 'normal' will no longer be realistic. Businesses are now rethinking the return to work strategy, adapting hybrid models to allow their staff to interact and connect. The people focus is at the fore as businesses consider the optimum conditions for workforce well-being and productivity as they approve these strategies.

"We are looking to reduce our office space by 50%, repurposing the remaining space for better working environments while allowing staff to work at alternative work locations."

Running the Board

Businesses have been tested in ways that were never anticipated before. Directors and executive management had to be agile in responding to emerging issues, making decisions with limited information to revisit when more information was available. Boards had to adjust their working methods by adopting virtual interactions and increasing the frequency of meetings to provide management with the necessary support and advice while making critical decisions. In addition, there was increased involvement of the board on operational matters as decisions were time-bound. As we advanced, directors confirmed a hybrid model would be adopted for board meetings to allow face-to-face interactions.

"Traditional decision-making process where management marinates and curates their thoughts then the board reviews, challenges and even sleeps on it was greatly challenged."

"The role of the Board and Management almost fused – this needs to get back to where it was with Boards providing oversight and management executing on the strategic agenda."

The crisis has emphasized the need for succession planning at both the executive and board levels. Concerns were raised where key executives and board members fell ill, and there was no clarity on who would take over. In the same breath, performance issues were exposed at both levels as some members struggled while others thrived. As a result, boards are now relooking at their composition to fill the skills gaps identified.

"Board membership will no longer be pegged to your physical location. We can seek talent anywhere."

Sustainability and business purpose

The pandemic has made businesses alive to the fact that they do not exist in isolation. Companies in public and private sectors went the distance to support the communities around them and societies at large. Business communities came together through various initiatives, such as contributing resources to the COVID-19 fund set up by the governments of Kenya and Uganda to help with containment measures. Some entities repurposed their production facilities to produce sanitisers and other personal protective equipment to equip front-line workers.

Boards have appreciated the benefits of partnerships with different stakeholders, including the government. As a result, many Chairs indicated that they would emphasise stakeholder mapping and engagement.

"COVID-19 exposed the need to rethink the stakeholder map. There was recalibration starting with the workforce through to the community. It was not just about shareholders' interest."

"COVID-19 sensitised us to our duty and obligation to humanity."

Directors confirmed that the pandemic has allowed them to reflect on the purpose of their businesses, putting purpose before profits and their license to operate within their communities. While Environmental, Social, and Corporate Governance (ESG) is a shared agenda globally, many Chairs feel that it is yet to gain traction locally. The primary concern for many organisations has been allocating resources to support ESG objectives while meeting the profitability objectives of their shareholders. Sectors exposed to foreign capital have made more significant progress on the ESG journey due to compliance requirements imposed by foreign investors and parent companies. Businesses are now starting to define ways of integrating sustainability into their strategies and business operations and moving away from the traditional corporate social responsibility programs implemented in the past.

"Rather than giving things for free, we have endeavoured to ensure better pricing for our products through input and process efficiencies and therefore reaching the mass market."

"Do not do sustainability programs for window-dressing. It needs to be woven into the business strategy, be part of your business DNA and have an impact across the entire value chain- employees, customers, suppliers, communities, government."

"ESG takes the back-burner space to survival; that is, I cannot afford to be a fanatic for healthy living when I do not have anything to eat."

"Businesses need to be looking at the possibilities of benefitting from climate change, e.g. leveraging on the carbon credit market and exploiting green hydrogen."

Board dynamics

Directors had varying experiences in their transition from their executive to NED roles. For those who joined boards in regulated sectors, the change was seamless due to structured onboarding programs. Those who joined new industries with no experiential background had to invest time in learning the industry dynamics and the business at large. Overall a mind shift was required from execution to providing oversight, advice and guidance without crowding management.

"The challenge is when you want to be an executive, yet you are a non-executive."

"My best learning has been from other seasoned board members and Chairs- listening and observing how they do it."

The core values of a good NED essentially include integrity, commitment, resourcefulness and continuous learning. Directors also indicated the need to be open-minded and respectful of diverse opinions and courageous and of independent mind to interrogate and challenge information presented.

"We have two hours of learning after each quarterly board meeting, on a wide variety of emerging topics of relevance to our entity and industry."

"Board members need to have different perspectives. If we all have similar views, there is a problem."

"Where there is trust, board members challenge each other robustly, as it is not personal."

"Be inquisitive without being patronizing. For example, what is the sound of the river? What is going on there?"

When asked what makes a good and effective Chair, Directors indicated that the Chair needs to be a good listener, trustworthy and have high emotional intelligence to read the room, draw out the reserved board members, understand the strengths of each member and leverage the same. In addition, many Chairs correlated their role to that of Orchestra Master as the role required them to build consensus while balancing relationships between the board and management.

"When you are elected as Chair by fellow board members openly and transparently, they give you a fair crack of the whip to succeed."

"Listen to the one dissenting voice. It may be telling you what the rest of you have ignored."

"People want to see leadership and decisiveness in the board Chair."

Directors identified the following critical tenets to having an effective Board:

- The right mix of people while ensuring diversity in gender, age, skills and personalities.
- Effective induction programs.
- Continuous education programs.
- Mutual respect among board members.
- An enabling environment to express diverse opinions.
- Trust amongst board members and with management.
- Focused agenda and board packs to allow for adequate preparation and deliberations during board meetings.

"There is insufficient focus on the independence of thought in the board room."
"There needs to be more emphasis on leadership and soft skills development for board members."

"We have reverse mentoring on our board, with each board member assigned a younger person to give them a different perspective on issues."

"Our boards are still male-dominated. They need to make room for more female representation who should put their best foot forward as they become the yardstick against which future female nominees are judged."

Organizations need compensation practices that attract, retain, and motivate the best people in a competitive talent market. Regulators and shareholders, however, also want greater transparency and pay for performance accountability. There was a consensus from the directors that the current compensation levels in both private and public sectors were not commensurate with the risks and responsibilities assumed. They also indicated the need for a benchmarking survey or analysis against peer companies within the same industry while providing remuneration recommendations. They suggested considering the company's size and market conditions and tailoring this to its unique circumstances.

In parting, the advice to future Chairs and directors was to be intentional in their board choices and fully understand the business and strategy of the company they choose to serve.

We have included under Appendix 1 of this report links to various leading Deloitte thought leadership articles that should be useful in guiding current and future directors to navigate the continued complexity of board oversight.

Impact of COVID-19 on the Economy

Context: What is your overview of the impact of the COVID-19 pandemic on the East African Economy?

"We only used to talk about computer viruses, never about biological viruses."

The impact of COVID-19 has been felt across the broad spectrum of the business community, stakeholders, and society at large. All Chairs agreed that the pandemic shifted the strategic focus of many organisations. The Chairs and directors interviewed gave the following insights.

Banking Industry

The banking industry felt the strain of the pandemic alongside their customers, employees and society at large. Banks faced impairment risks and restructured loans to cushion the customers and meet them at their point of need. Regulators worldwide put emergency measures to mitigate the adverse economic effects on bank borrowers from the COVID-19 pandemic. In Kenya, the Central Bank of Kenya (CBK)[1] allowed the restructuring of loans for up to one year for loans performing as of 2 March 2020. CBK also suspended transaction fees charged by operators of mobile money platforms for amounts below Kshs. 1000[2]. Banks took up measures to recognize potential future credit losses through growth in impairments. A review of the primary listed banks showed a considerable decline in the profit before tax in 2020 compared to 2019. Below is a trend analysis of the financial performance of some listed companies in the banking industry.

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on restructuring and impairment of loans
Stanbic Uganda Holdings Limited	Ushs. 349.6 billion	Ushs. 318.6 billion	Ushs. 203.2 billion	▼▲	• In 2020, the bank's impairment charges for credit losses increased to Ushs. 92 billion from Ushs. 44 billion reported in 2019[3]. • By mid-2021, the bank reported improvements in its financial performance attributed to growth in trading revenue by Ushs. 37.5 billion while the impairment charges for credit losses have reduced by Ushs. 11.7 billion[4].
NCBA Group Plc	Kshs. 11.3 billion	Kshs. 5.0 billion	Kshs. 7.4 billion	▼▲	• The bank restructured loans valued at about Kshs. 78 billion and had an increase in credit provisions by Kshs. 20 billion. The high level of provisions affected the company's profitability[5]. • By June 2021, the bank had experienced 90% growth in profitability (by Kshs. 2.8 billion). This was attributed to an increase in the operating income, higher customer activity and a decline in loan impairment charges (by Kshs. 1.7 billion)[6].
ABSA Bank Kenya Plc	Kshs. 12.3 billion	Kshs. 8.8 billion	Kshs. 7.9 billion	▼▲	• There was a twofold growth (from Kshs 4.2 billion to Kshs 8.6 billion) in impairments after portfolio performance deterioration in the 2020 financial year[7]. Comparing year-on-year, net interest income only grew by 1%. • In the 2021 half-year results, the bank reported improved financial performance driven mainly by growth in interest income and a reduction in credit impairments[8].

Legend

▼ YOY decrease in financial performance

▲ YOY increase in financial performance

(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

Manufacturing Industry

Some manufacturing entities faced declined demand and, therefore, production activities as the economic strain of COVID 19 was felt by households and lock-downs and restrictions on social gatherings curtailed spending patterns. Manufacturing companies took up measures to ensure sustained operational efficiencies, such as the adoption of intelligent procurement, digitalization of the operating models, and improved cost management, leading to a reduction in operating expenditures. Some pivoted to the production of personal protective equipment (PPE), including masks and sanitisers and benefited from the significant demand. Where cross border trade was affected, industry bodies such as Kenya Private Sector Alliance (KEPSA) and Kenya Association of Manufacturers (KAM) coordinated industry discussions with the governments for improved transit of goods across the borders. The Government of Kenya reduced the Value Added Tax (VAT) from 16% to 14% as part of its COVID-19 relief measures. The impact of COVID-19 is evident in the trends shown in the tables below.

Name of the entity	PBT in FY 18/19	PBT in FY 19/20	PBT in FY 20/21	Trends	Comment on sales
East African Breweries Limited*	Kshs.17.8 billion[9]	Kshs. 10.7 billion	Kshs. 10.9 billion	▼▲	• Sales grew by 10% in the first half of the financial year to 30 June 2020 but declined by 29% in the second quarter[10].The closure of social outlets and restrictions in their operating hours, including government-mandated curfews, contributed to the decline.
Cipla Quality Chemicals Industries Limited+	Ushs. 7.1 billion	-Ushs. 35.7 billion	-Ushs. 9.7 billion	▼▲	• The 2020 results were impacted by suspended sales and provisions for amounts receivable from the Government of Zambia.[11]
Name of the entity	**PBT in FY 2019**	**PBT in FY 2020**	**Unaudited Half year PBT in FY 20/21**	**Trends**	**Comment on sales**
British American Tobacco Kenya Limited	Kshs. 5.5 billion	Kshs. 7.4 billion	Kshs. 3.9 billion	▲▲	• The positive performance in the 2020 FY was driven by higher export revenues and lower excise duty and Value Added Tax, which offset declined domestic sales in the year[12]. • Gross revenue increased by 22% driven by the recovery of domestic sales volumes, excise-led price increases and sustained momentum on export sales[13] .
British American Tobacco Uganda Limited	Ushs. 22.5 billion	Ushs. 29.2 billion	Ushs. 4.9 billion	▲▼	• The improved performance in the 2020 FY was attributed to optimal pricing strategies, an enhanced product mix and efficient cost reduction. The company, however, felt the impact of the pandemic, registering a 1% reduction in gross revenues[14]. • Performance in the first half of the 2021 financial year was negatively affected by the increased trade in tax evaded cigarettes in the country[15].

* *Financial year end is the 30th of June*
+ *Financial year end is the 31st of March*

Investments Industry

The Investment industry, directly and indirectly, felt the impact of the pandemic, as evidenced in their financial reports. In response to the pandemic's impact on business performance, the industry saw reduced dividend income from its portfolio and an increase in the impairment valuations of its investment portfolio. In some cases, some portfolio companies made capital calls to their principal investors. For example, the only listed company within this industry, Centum Investment Company Plc, had the following results.

Name of the entity	PBT in FY 18/19	PBT in FY 19/20	PBT in FY 20/21	Trends	Comment on income
Centum Investment Company Plc*	Kshs. 4.4 billion	Kshs. 5.4 billion	-Kshs. 2.3 billion	▲▼	• In the 19/20 financial year, profits were hampered by the impairment provisions on fair valuation of the investment portfolio, in line with its conservative asset valuation policy and the prevailing economic conditions. There was also a 70% reduction in dividend income from the company's portfolio. The sale of the stake in Almasi Beverages Limited, Nairobi Bottlers Limited, and King Beverage Limited led to a higher profit before tax[16]. • Reduced transaction activity in the private capital markets led to the company withholding any planned exits in the 2020/21 financial year[17]

Insurance Industry

The impact of COVID-19 in the industry was characterised by a decline in Gross Written Premiums from prior year positions mainly due to reduced distribution channels and an increase in surrenders. There were also increased Gross Claim Paid due to a rise in claims resulting from COVID-19 deaths, increased medical costs and a sharp rise in surrenders. In addition, insurance companies that had made investments were affected by modest valuation losses brought by the unfavourable operating environment. At the onset of the pandemic, clients did not deem insurance as a priority and therefore diverted their funds to areas that would help them pull through the pandemic. As a result, insurance companies had to rethink the approach and relook at their repayment plans to ensure continued premiums inflow from clients. Also, they had to re-evaluate their product offering to align with the customer demands and priorities. Below is a trend analysis of the financial performance of some listed insurance companies.

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on revenues
Kenya Re-Insurance Corporation Limited	Kshs. 4.2 billion	Kshs. 4.0 billion	Kshs. 762.4 million	▼▼	• The decreased performance in 2020 was attributed to a decrease of unrealized fair value gains on the revaluation of investment properties, an increase in net claims incurred which was caused by an increase of the claim's reserves and a drop in the share of associates profits from ZEP-RE (PTA Reinsurance Company) which dropped by 295 million[18] . • In 2021, there has been a 17% growth in claims and other expenses which have eroded revenue growths reported in the first half of the financial year[19].

** Financial year end is the 31st of March*

Name of the entity	PBT in FY 18/19	PBT in FY 19/20	Unaudited Half Year PBT in FY 20/21	Trends	Comment on revenues
CIC Insurance Group Plc	Kshs. 385.6 million	-Kshs. 80 million	Kshs. 336.7 million	▼▲	• Performance in FY 2020 was mainly due to a one-off Kshs. 274 million loss in financial position recorded in the South Sudan subsidiary upon first-time adoption of IAS 29, poor performance in the equities market, and an increase in reserves across business lines. • Other factors include a spike in COVID-19 related death claims, a sharp increase in surrenders and decreased insurance distribution channels due to the restriction of movement[20].
Jubilee Holding Ltd	Kshs. 5.0 billion	Kshs. 5.1 billion	Kshs. 5.2 billion	▲▲	• While Gross Written Premium decreased in FY 2020 by 0.6%, there was a higher share of profits (Kshs. 341 million) from its investments in associate companies (Bujagali Holding Power Company Limited, PDM (Holdings) Limited, IPS Cable Systems Limited (Seacom), FCL Holdings Limited (Farmers Choice Limited) and IPS Power Investment Limited (Tsavo Power Company Ltd)[21]. • The 2021 half-year results include proceeds from the sale of a 66% stake in the Jubilee General Insurance Company in Kenya[22].
Britam Holding Plc	Kshs. 4.6 billion	-Kshs. 9.7 billion	Kshs. 647.4 million	▼▲	• FY 2020 results were attributed to poor equity performance, property impairments and unfavourable operating environments affecting its investments in associate companies[23]. • The positive results of the first half of the 2021 FY have been attributed to growth in investment income by 35%, revenue growth in local and regional business and improved performance of equities at the Nairobi Securities Exchange[24].

Commercial and Services Industry

Kenya Airways, a key player in the aviation industry, took various measures to help cut costs and preserve cash. These included negotiations with lessors to restructure aircraft lease terms, cancellation of director remunerations, deferred staff salaries and capital expenditures, recruitment freeze and voluntary leave options. From an operations perspective, to ensure that it moved vital goods during the pandemic, the airline repurposed two[25] of its Boeing 787 aircraft into a "preighter" to carry cargo. As a result, cargo revenues increased by Kshs. 331 million in the 2020 financial year. The airline also offered special chartered flights which were used for repatriation purposes during the pandemic. Through this offering, over 5000 passengers were reconnected with their loved ones[26]. There was an increase in the uptake of local tourism as international borders remained closed. To relieve pandemic pressures, people looked for local gateways leading to increased demand for local travel[27]. Regional airlines such as Jambojet also ventured into chartered operations in 2020 to address customer needs and diversify their revenues[28]. The demand for local flights has gone into the 2021 financial year, forcing carriers such as Jambojet and Kenya airways to increase the flight frequencies and flight costs[29].

The pandemic containment measures led to a decline in print circulation volumes, while the financial strain on businesses caused decreased advertising as companies tried to control their costs. As a result, businesses had to take quick steps by scaling down operations and, where possible, adopting alternative revenue sources such as introducing and growing digital products and identifying ways of improving operational efficiency.

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on revenues
Kenya Airways Plc	-Kshs.13.0 billion	-Kshs. 36.6 billion	-Kshs. 11.5 billion	▼▲	• In FY 2020, there was a 67.5% reduction in passenger revenue while cargo revenues increased by Kshs. 331 million.
Nation Media Group	Kshs.1.3 billion	Kshs.119.9 million	Kshs. 410.7 million	▼▲	• FY 2020 decline was attributed to a significant decrease in the Group's advertising and circulation volumes due to government measures rolled out to control the spread of COVID-19, scaled-down operations delayed back marketing activities.[30] • The positive performance in FY 2021 has been attributed to growth in print and television advertising revenue, digital advertising revenue, E-paper and nation.africa subscriptions. There have also been cost-containment measures taken up in the period.[31]
Standard Group Plc	-Kshs. 684.0 million	-Kshs. 434.4 million	-Kshs. 87.2 million	▲▲	• There was a 29% decline in revenues in FY 2020 as most clients put cost-cutting measures in response to the pandemic [32]. • The first half of FY 2021 has been characterized by a 14% revenue growth and an 8% reduction in operating expenses[33]

Agricultural Industry

COVID-19 had a varied impact on the businesses, depending on the crop grown and traded. The 2020 financial year was characterised by a reduction in the realised tea prices, improved coffee prices, increased demand for avocados and halted macadamia business. Businesses that grew and traded tea had declined revenues, while those that traded avocados had a more stable performance in the year. Some companies in the tea sector adopted cost-cutting measures such as the mechanisation of tea harvesting processing.

Automobiles and Accessories Industry:

Lockdowns and movement restrictions imposed by governments to control the spread of COVID-19 forced companies to adopt innovative ways to cope with the challenging business environment. Some businesses picked up e-commerce while others relooked at their logistics plans to get products to the customers/route to market. The demand for motorcycle and three-wheelers transport services increased with the growth of e-commerce and the increased need to deliver products to customers.

Name of the entity	PBT in FY 18/19	PBT in FY 19/20	Unaudited Half Year PBT FY 20/21	Trends	Comment on revenues
Car and General (Kenya) Plc⁺	Kshs. 99.3 million	Kshs. 129.8 million	Kshs. 608.8 million	▲▲	• While there was a negative impact on sales in the third quarter of the entity's FY 19/20, the company experienced a recovery in the fourth quarter, particularly in the sale of motorcycles and three-wheelers, which offset the overall economic business interaction. As a result, there was a 2% growth in revenue[34]. • In the first half of FY20/21, there was a 30% year on year growth in revenue[35].

Construction and Allied Industries

The COVID-19 containment measures had an initial impact characterised by reduced business, closure of business and reduced revenues. The industry was also affected by the bottlenecks experienced in global supply chains, which caused delays in delivery and increased costs of raw materials and spare parts. In response, businesses reviewed their costs and focused on the critical budget heads, thereby realising a significant increase in reported profits. Below is a trend analysis of some listed companies in this industry.

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on sales
Bamburi Cement Limited	Kshs. 728 million	Kshs. 1.8 billion	Kshs.1.1 billion	▲▲	• The improved FY 2020 financial year performance resulted from improved cost management measures focused on critical budget heads.[36] • In the first half of the 2021 financial year, sales volume recoveries in both the domestic and export markets have influenced the better performance reported. In addition, the company has realized better selling prices on its products[37].

⁺ *Financial year end is the 30th of September*

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on sales
Crown Paints Kenya Plc	Kshs. 528.0 million	Kshs. 862.9 million	Kshs. 503.0 million[38]	▲▲	• The improved performance in FY 2020 financial year was attributed to recoveries in the last two quarters of the financial year mainly due to an increase in residential property repairs and improvements as consumers spent a significant time at home and assessed their property improvement opportunities[39].

Energy and Petroleum Industry

Businesses in this industry were affected by the COVID-19 pandemic in different degrees depending on the business model. Businesses such as the Kenya Power and Lighting Company Ltd that heavily rely on its staff mobility was adversely affected. Meter reading and revenue collection were affected by the lockdown and travel restrictions in the country in the second quarter of the financial year. In addition, the broader closure of businesses and reduced customer repayments affected the collection and sales of the company. On the other hand, Total Kenya Ltd and KenGen Limited had a positive performance in the 2020 financial year. KenGen experienced favourable hydrological conditions characterised by auspicious inflows into its reservoirs which were optimised in hydro generation[40]. Reservoirs such as the Masinga dam and Turkwel dam attained the highest reservoir level ever within the 2020 financial year. It also obtained additional revenue from its Ethiopian Branch established in 2019. Total Kenya Ltd took measures such as optimisation of its fuel stocks and diversification of its revenues to cushion itself against the impacts of the pandemic.

Name of the entity	PBT in FY 2019	PBT in FY 2020	PBT in FY 2021	Trends	Comment on revenues
Kenya Power and Lighting Company Plc*	Kshs. 334 million	- Kshs. 7.0 billion	Kshs. 8.2 billion	▼▲	• In the 2019/20 financial year, meter reading and revenue collection were affected by the lockdown and travel restrictions in the country in the second quarter of the financial year. In addition, as businesses shut down electricity consumption declined by an average of 14.8% leading to a reduction in revenues.[41] • In FY 20/21, revenues have increased by Ksh. 10.9 billion due to an increase in unit sales while finance costs have reduced by Ksh. 3.4 billion.[42]

** The company has a June financial year end*

Name of the entity	PBT in FY 2019	PBT in FY 2020	PBT in FY 2021	Trends	Comment on revenues
Kenya Electricity Generating Company Plc (KenGen)*	Kshs. 11.7 billion	Kshs. 13.8 billion	Kshs. 14.8 billion	▲▲	• Performance in FY 19/20 was characterized by a 4% decrease in revenues, an additional Kshs. 0.44 billion from the Tulu Moye branch in Ethiopia and a reduction in corporate tax by 5% resulting in an overall tax credit of Kshs. 4.6 billion. The reduction in corporate tax was one of the measures by the Kenyan government to cushion the economy against the impact of COVID-19.[43] • In FY 2021, revenue increased by 4.06% (Ksh 1.8 billion) with the largest revenue growth (Kshs. 1.3 billion) being experienced from its Tulu Moye branch in Ethiopia[44].
Name of the entity	**PBT in FY 2019**	**PBT in FY 2020**	**Unaudited Half Year PBT in FY 2021**	**Trends**	**Comment on revenues**
TotalEnergies Marketing Kenya Plc	Kshs. 3.9 billion	Kshs. 4.8 billion	Kshs. 2.5 billion	▲▲	• In the 2020 financial year, there was a 27% growth in other income resulting from continued investment in the shop, food and services (SFS), rental and sundry incomes[45]. • In the first half of the 2021 financial year, there has been a 10% increase in net sales while operating expenses have remained at the same level[46].

** The company has a June financial year end*

Investment Services Industry

The Nairobi Securities Exchange Ltd, the only listed company in this sector, took measures to cushion itself. These measures included a 25% reduction in administrative costs, which enabled the company to remain in a profit-making position, posting a 52% increase in its profit before tax.

Name of the entity	PBT in FY 2019	PBT in FY 2020	Unaudited Half Year PBT in FY 2021	Trends	Comment on performance
Nairobi Securities Exchange Plc	Kshs. 104.5 million	Kshs. 218.9 million	Kshs. 108.0 million	▲▼	• The company took measures to cushion itself, including a 25% reduction in administrative costs, which enabled it to remain in a profit-making position[47]. • In the first half of the 2021 financial year, there was a 5% reduction in revenue mainly due to a decline in equity turnover.

Telecommunication Industry

The COVID-19 pandemic has demonstrated the critical importance of the telecommunication industry in keeping businesses, governments, and society connected. With most companies adopting remote working, there was increased uptake of home internet connection. Most businesses defaulted to technology to engage with their customers and stakeholders for continued operations.

"The best thing that COVID-19 brought was online meetings. M-Pesa transaction fees were waived on 16 March 2020, and M-Pesa limits increased from Kshs. 70,000 to Kshs. 150,000 per day as approved by the regulator, the Central Bank of Kenya (CBK)."

Below is a trend analysis for Safaricom Plc's financial performance, a listed company in the telecommunication industry.

Name of the entity	PBT in FY 18/19	PBT in FY 19/20	PBT in FY 20/21	Trends	Comment on revenues
Safaricom Plc*	Kshs. 91.2 billion	Kshs. 105.8 billion	Kshs. 93.6 billion	▲▼	• Performance in FY 20/21 was characterized by: ▪ Waiver of transaction fees on the Lipa Na M-Pesa (LNM) transactions, Bank to M-PESA wallet and M-PESA wallet to Bank (B2C and C2B), a directive given by the Central Bank of Kenya to facilitate cashless transactions and curb the rapid spread of COVID-19. ▪ Reduction of M-PESA tariffs by up to 45% for bands up to Kshs. 7,500. ▪ Increase in fibre to home revenues by 49.1% and workplaces turned virtual (working from home) and growth in mobile data revenue by 11.5%.[48]

** The company's year-end is 31st March.*
(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

Hospitality Industry

The hospitality and tourism sectors were hard hit with hotels shutting down or significantly reducing their operations, restaurants and eateries reduced to take-outs, and customers being in lockdown. Businesses in these sectors had to make tough decisions and rethink their strategies to survive. Challenges faced included cash flow and liquidity management as demand dropped and cautious customers stayed away. Social distancing requirements necessitated reconfiguring physical spaces with increased cleaning costs to maintain additional hygiene standards, which were necessary measures mandated by the Governments of Kenya and Uganda. Initiatives taken by some establishments included pivoting to online deliveries, having centralized kitchens to put more staff in food preparation to meet online demands and extending product offerings to include sales of fruits, meats and dry goods. The effects of the pandemic on this industry have persisted beyond the lifting of travel restrictions and regional lockdowns. On the flip side, players in the industry whom the pandemic did not severely impact included those running Airbnb, whose business blossomed as bookings for social events amid curfew hours and people looking for alternative workstations or quarantine locations increased. In addition, families with means looked for local tourist destinations to visit, which boosted the sector somewhat.

Other Observations

Some sectors, including furniture stores, roadside florists, and sports shops, saw their sales grow in 2020. As the realisation hit that the pandemic was long term, people bought more comfortable furniture to work from home and were more fitness conscious and engaged in fitness activities. A local entrepreneur running a small outfit, Lets Drift, that organises affordable outdoor experiences to hidden gems in Nairobi County on a monthly subscription fee of Ksh 1,000 recorded a high number of followers and subscribers (1,200 on Facebook[49] and 14,000 on Instagram[50]). This outfit has grown from being a hobby to a now full-fledged adventure company. Digital communication companies also saw an increase in revenues as online marketing and trading got accelerated adoption.

"Success happens when luck meets preparation."

Government institutions providing essential services such as the Business Registration Services (BRS) saw increased business registrations as citizens who had either lost their jobs or venturing into new areas registered new companies. The Kenya Pipeline Corporation (KPC), which had recently streamlined its operations, was impacted as jet fuel sales volume declined significantly because of restrictions of flights in the country and globally. Fuel sales also declined as cross border movement declined. KPC donated Kshs. 55 million to the National Youth Service (NYS) to produce 1.5 million masks to be distributed to the public[51]. In addition, they galvanized the oil and distribution industry to provide 1.5 million litres of sanitisers to Kenyans [52] The pandemic was indicated to have brought back to the fore the purpose of critical parastatals like KPC, which is to provide service to consumers, pay for themselves, make a surplus to the Exchequer, and support other government priorities.

The health sector exposed some fragilities as county governments struggled to scale up on Intensive Care Unit (ICU) beds and qualified ICU nurses. As a result, the skilling of nurses for critical caregiving had to be fast-tracked. On the positive side, increased good hygiene from regular handwashing resulted in fewer infections and common colds amongst the general populace. In addition, collaborations and partnerships were entered into to restore and improve infrastructure in the health sector. The provision of telemedicine services was also embraced and saw a significant increase in revenue. However, in the initial phase of COVID-19, there was a notable decline in the number of potential patients visiting hospitals and seeking treatment, on the perceived fear of being tested for COVID-19 and being detained.

"Our internal problems were a distraction in dealing with COVID-19."

Directors interviewed indicated that some of the positive impacts of the pandemic included more family time and memorable moments as new hobbies and reconnections were done as government-imposed curfews prevailed.

Business Operations and Strategy

When this crisis hit in March 2020, what immediate changes did you make? (Board responses)

"We were right in the middle of dealing with many internal, market and strategic challenges, then came COVID-19."

"We were in unknown territory."

There was commonality in the way different organisations reacted to the pandemic, albeit with some critical differentiations based on their preparedness for online working based on, for example, prior investment in the requisite technology infrastructure. Some of the standard measures taken by organizations included:

Protection of employees/workforce

All Chairs agreed that the people plan came to the fore. The primary focus included putting in place measures to protect employees and ensure their safety. Some of the actions taken included the following:

- Invoking remote working arrangements. *"It helped us to accelerate our "one company" strategy, that is utilizing the most appropriate resource regardless of location, using online platforms."*
- Flexible arrangements were made for staff to either work from the office or home locations. However, restrictions were also made on the number and rotation of staff in office premises at any one time. *"It became my health, my family, my team."*
- Additional shifts were made to ensure safe working environments without hampering productivity and production schedules for manufacturing plants. *"We had rapid action teams who were empowered to make decisions based on their safety."*
- Provision of adequate personal protective equipment (PPE) for staff while at work. *"'Health and safety first' became our mantra."*
- Facilitating provision of appropriate tools for those working from home, including laptops, airtime purchase, internet connectivity subscription and soft loans to purchase work desks and seats.
- Assessing the adequacy of staff medical insurance and revision as appropriate.
- Financing of staff counselling support on mental health and other challenges exacerbated by the pandemic. *"The oversight on the Human Resources department capability, practices and resourcing came under exceptional scrutiny. We found many opportunities for improvement."*

Cashflow management and scenario planning

Businesses had to review their cash flow positions and revise their credit terms, including offering discounts as incentives for customers to make earlier payments. *"Getting cash in was very important – our mantra became - conserve cash and pay only when necessary."* Most organisations found themselves modelling different scenarios to inform current planning, their cash flow implications and determine how resilient the business would be should a cash crunch materialise. *"We had to put aside the profit motive."* The phrase 'Cash is King' was never more accurate than during this period. Companies with healthy balance sheets and cash reserves had distinct advantages in withstanding declined revenues and extended periods of depressed demand. *"COVID-19 forced us to pause and critically ask ourselves the beneficial outcome of various projects proposed, using a customer experience lens."*

- **Cost containment:**

Measures taken to contain costs in some organizations included downward revision of salaries, retrenchments, reduction of office space and renegotiation of office leases. Chairs agreed that only limited expenditure crucial to run the business was incurred. *"We focused on efficiency: holding as little inventory as possible, just in time production and cash conservation."* Banks in Kenya[53] and Uganda[54] had to get approval from the industry regulator before declaring dividends for the 2020 financial year under a new directive seeking to ensure that lenders had enough capital to ride out the pandemic. *"We were forced into spring cleaning."*

- **Strategy reviews**

Chairs indicated that the strategic analysis of the business previously performed annually or at a minimum quarterly was done monthly and with much more rigour. "The long term vision is good, but how you interact with strategy is evolving – the near term strategy must be continually reviewed." The reviews not only focused on the impact of COVID-19 on the business but, more importantly, on rethinking and reconfiguring strategies to optimise the current situation with a futuristic view. *"We had to lift our eyes beyond the challenge and sought professional input as was appropriate."* Some Chairs indicated having scheduled weekly meetings to be updated on emerging issues and advise management on navigating the problems. *"We accelerated our thinking about new markets and products."* In addition, the boards became more involved in tactical planning as companies put in measures to survive.

- **Disruption of the supply chain network**

The disruption to the global supply chain significantly affected companies relying on imported raw materials, spare parts and other inputs. As a result, they could no longer access the required inputs or, eventually received, at very exorbitant prices attributed to freighting challenges. This exposed systemic issues for companies lacking a robust planning process and clear visibility of their inventory levels. The focus shifted from efficiencies to robustness. It was no longer Just in Time but Just in Case. The global supply chain network was further disrupted by other events, including the Suez Canal Saga, where the Evergreen container ship (the Ever Given) ran aground in the Suez Canal in March 2021. The six-day blockage delayed approximately 17 million tons of cargo freight on hundreds of vessels, significantly impacting the already stressed supply chain network. *"Our goods were stuck in Dubai for seven months."*

- **Business models**

Businesses had to reconfigure their business models to adapt to the new operating requirements. With the government instituted lockdowns and social distancing requirements, many businesses had to pivot to digital platforms and strategies to engage their customers. For example, banks accelerated their digital channels' activation; telemedicine was adopted and embraced in providing mental health and other counselling services; digital courts were adopted in delivering justice. Home deliveries became a new normal as companies innovated on their route to market strategies. *"Ingenuity and agility came to the fore."* Organisations who had started their digital journey pre-COVID-19 had an easier time transitioning their customers and services to digital offerings and had a minimal impact on their revenues. *"Our investment in predictive analytics about two years before COVID-19 paid off."*

- **Business continuity management**

According to several directors, companies with business continuity plans discovered that the programs could not be fully invoked. They had primarily been designed to respond to natural disasters, operational issues and cyber-attacks. Directors confirmed that their business continuity plans had not factored in a global pandemic where they needed to ensure employees' physical and mental well-being. The strategies needed to be revisited and updated to address specific topics related to crisis management due to health risks. *"We had eight workstreams working on COVID-19 crisis management with oversight from the board."*

- **Risk management**

The robustness of the enterprise risk management processes and the completeness of risk assessments, risk registers and board reporting came under intense scrutiny. *"Despite the significant investment we had already made on cyber risk management, we had to up the ante as new risk patterns crystallized."* Interviewees agreed that they had planned various risk types and mitigations but not a global pandemic simultaneously impacting every location. However, the

discussions eventually evolved to ensure the organisations were resilient from a risk management perspective when the next global pandemic hit, factoring in the lessons from the COVID-19 experience. *"We had some experience working in volatile environments and took the learnings from there."*

- **Stakeholder engagement**

There was an increase in stakeholder engagement, including customers, suppliers, employees, shareholders, communities and industry groups. Directors acknowledged that the pandemic had emphasised empathy, prompting businesses to expand their spectrum of stakeholders, with board members stepping in to help with the engagement with regulators, amongst others. *"We had monthly virtual townhall sessions with different segments of the business, from our frontline staff through to customers. Board members joined senior management in these sessions and helped explain the required changes in ways of working and provided assurances as appropriate."*

The need for the company to communicate effectively with its stakeholders to engender trust and strengthen existing relationships became even more apparent. Partnerships grew as the business community worked together to address the community's needs.

"Our stakeholder engagement services soared as entities looked to engage with regulators and various industry groups and enter partnerships with the government."

The Kenya and Uganda private and public sectors contributed to the COVID-19 funds created to help raise funds to support the two Governments accelerate the containment activities. These included public awareness campaigns, purchasing personal protective equipment for front line workers, testing and other rapid response measures.

"We had to step up and be at the forefront in working with the regulator to protect business and support the government in its various COVID-19 containment initiatives."

(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

Strategy and Board Agenda

What are your key learnings from the COVID-19 crisis? What are you carrying forward? What was its impact on the board agenda?

Running the Board

Many boards have operated differently during the period of lockdown and disruption. What changed, and what do you intend to retain for future ways of working? (What is staying?)

Given the uncertainty and market turbulence organisations have faced, all Chairs confirmed that they had learned some lessons, and as we advance, it will not be business as usual. As organisations increase their focus on moving beyond COVID-19 'Respond' and 'Recover' to 'Thrive' strategies, directors indicated they would carry through the following practices:

- **Virtual board meetings**

All directors interviewed had to immediately adjust to virtual board meetings on the onset of the COVID-19 pandemic. Some Directors had to accelerate their digital literacy as virtual engagements became the new norm. *"Our board was very resistant to virtual attendance of meetings pre-COVID-19. Now our meetings have been virtual since March 2020."* There was a general appreciation of the flexibility offered by virtual meetings as Directors connected from various locations and did not need to travel within the country and other jurisdictions resulting in time and cost savings. *"I moved from at least six trips to the United Kingdom (UK) in a year, to zero."* Meetings were deemed to be more focused and efficient as directors went straight to the meeting agenda. While the virtual sessions accrued many benefits, most Chairs confirmed that some aspects of physical interactions were lost, such as reading the body language of directors during meetings. All directors agreed that they foresee a situation where organizations adopt a hybrid model of virtual and designated physical meetings. *"We got closer as a board during COVID-19. We had online quiz nights and dinner every two months where the only rules were no politics or board room discussions."*

- **More hands-on engagement by directors**

Boards were called upon to be more involved in the business to support management and provide guidance and closer oversight as they navigated the pandemic with a future focus. *"It was not just the Chair engaging with the CEO and other executives. Board members were allocated different focus areas to engage around, based on their skillsets and experience."*

As this continues, Directors need to remember their primary role of providing oversight and balancing without overstepping into the executive mandate. *"It used to be that we would meet once a quarter, ask questions and then go home. At the height of the pandemic, we met at least every two weeks."*

- **Regular engagement with executive management**

All Chairs indicated more frequent engagement with management as they tried to understand the impact of the pandemic on the organization. *"We learnt a lot about the bench strength of our executive team."* One board created a WhatsApp group, for the first time, to allow for real-time communication between board members and management as sharing of information on a real-time basis became critical. *"We were careful not to compromise the principles of good and effective governance even as we engaged frequently with the executive team."*

Directors had to strike a delicate balance between providing active oversight without obstructing the executive's actions. *"Your relationship with the Executive team is a key determinant of how effectively you work together."* In the future, directors would like to have early access to information relating to critical matters and not have to wait until the next board meeting. *"I keep my distance but remain wired to the business through the CEO, CFO and Company Secretary as necessary. I also engage with Board committee Chairs."*

- **Decision-making**

The directors cited situations where decisions had to be made with the readily available information to revisit the same once more information was available. *"In the initial weeks, we had to make decisions with 5% of the information available and take a leap of faith and hope no subsequent egg on our faces."* Organizations will demand more from management and directors to continue being proactive and agile in their thinking in assessing their operating environment and making decisions quickly. *" It used to take us three months to make a decision. Now we met weekly and made quick decisions." "There was more tolerance for mistakes and greater flexibility in decision making which we made amid ambiguity."*

- **Strategy review**

Directors confirmed that strategy would continue to be a standing agenda item to determine the changes needed and review measures to ensure that the long-term plan is achieved. Directors and executive management are challenged to confront uncertainty and be willing to consider different possibilities to re-position their organizations in the marketplace, design new value for customers and compete and collaborate over time with like-minded organizations. *"We moved from an annual to a monthly review of the strategy, resulting in a better understanding of the business."*

- **Digital acceleration**

The pandemic accelerated digital adoption across different sectors. Most Chairs confirmed that this would not only continue but will be elevated as companies continue to invest in digital technologies such as artificial intelligence and robotic process automation (RPA) to enhance operational efficiencies. Chairs also indicated that investment in data analytics tools and skills to enhance the decision-making process will continue. *"There was less adjustment for those organizations that had already started their digital journey and invested in the enabling technology. Others struggled."* Interviewees indicated that organisations would continue to enhance their digital infrastructure to support remote or hybrid work arrangements. Banks are working towards complete digitisation where end-to-end services can be provided digitally, from customer onboarding and transacting to having world-class digitally-enabled customer services centres to elevate the customer experience. *"We used to send documents for sign off all across the region and Africa via DHL. Now with the use of digital signatures and approval via circulation, we are good to go."*

- **Innovation**

Chairs agreed that the pandemic had forced businesses to relook at their business models to adapt to the new normal. Innovations on route to market, the adaptation of core business to meet shifting customer needs, ways of working, and changes to sales and marketing models have presented new growth opportunities. *"FinTechs will run various aspects of banks of today."* Companies will need to continue to embrace innovation to expand their businesses in a post-COVID-19 world. *"Are you going into tech at the exclusion of labour?" " In my organization, you need to justify why a process cannot be automated continually. For example, why do you need 14 and not two staff?"*

- **Future of work**

Most directors, emphasized the need to right-size and make their organisations nimbler. It is imperative to have the right skills mix, continuously reskilling, and upskilling to ensure that employees are well equipped to manage risks and take the organisation to the next level. Some Chairs notably indicated the need to have a multi-skilled workforce they can quickly redeploy to run different sections of the organisation and only engage specialists on a need basis. In addition, there is a continued need to put in place retention strategies and measures to attract top talent continually through competitive remuneration, wellness, and safety programs and flexible work arrangements. *"We do not need many people; we need different people."*

- **Risk management**

There will be a continued emphasis on risk management as companies navigate the pandemic and manage emerging risks. *"You had better be in good shape to face the hard times."* With the adoption of recent technologies and digital business models, directors must now pay attention to a new realm of threats such as cyber security risks, digital risks, third-party risks, climate change, amongst other emerging risks. *"The role of the audit and risk committee in stress-testing oversight on emerging risks identification and management became crucial."* In addition, directors and executive management must continuously scan

the horizon and assess challenges encountered in other parts of the world as these could quickly materialise in your market. *"Look at risk with the eyes of the future."*

- **Business continuity and crisis management**

The pandemic has brought to light the need to prepare for the unknown. Directors are uniquely placed to objectively anticipate and oversee crisis events through the lens of risk management and the extent of an organisation's crisis preparedness. Businesses will continue to update their business continuity management plans to include scenarios that would previously not be considered. *"Whatever crisis plan you had, you probably did not plan for a global pandemic."*

- **Virtual engagements**

It is expected that virtual working will continue, including board meetings. Most Chairs confirmed that they expect a hybrid model to be adopted from now on. *" We invested in video conferencing facilities over ten years ago but abandoned it after a few trials. It has now become the new normal." "We doubled down on our investment in cybersecurity risk management in the face of a continued hybrid way of working and engaging."*

- **Stakeholder engagement**

Chairs agreed that directors have a crucial role in stakeholder engagement, previously left to only management. *"Boards need to be awake to the fact that stakeholders are getting smarter, more knowledgeable and with access to a lot of information in the public domain. We need to re-align our thinking to accommodate a more enlightened stakeholder."* Companies will need to update their stakeholder mapping and develop a robust framework to effectively engage with internal and external stakeholders and engender trust and confidence. *"We have now become very intentional on our consumer focus and how we continually adjust to meet their needs."*

- **Virtual AGMs**

The COVID-19 pandemic and ensuing government directives on public gatherings to curb the spread of the virus posed a challenge to conducting annual general meetings (AGMs), which is a statutory requirement by the Kenyan and Ugandan Companies Act. Guidelines were issued by the Business Registrar Services (BRS) on the conduct of virtual and hybrid AGMs based on impracticability to hold public meetings.[55] *"Shareholders are our first line of fans or supporters. We need to be careful not to lose that connection."* Most Directors indicated an increase in attendance and engagement by shareholders compared to prior years. Efficiency was gained through more focused questions by shareholders on business performance, and cost savings were realised by not incurring venue hires, event planning and AGM giveaways. *"The benefits of virtual AGMs outweigh the costs."* However, some Directors questioned the inclusivity of virtual meetings as not all shareholders were tech-savvy and at the risk of being left out. *"The face to face engagement with our shareholders was missing." "As an extroverted person by nature, I would prefer physical AGMs."*

- **Succession Planning**

In times of uncertainty, the need for robust succession planning becomes dire. Directors confirmed concerns around succession planning when some executives and directors fell ill and indicated having had detailed conversations on identifying key successors for executive and board roles. *"We had two board members down with COVID-19 for an extended period. We had to have the conversation on their potential replacement in the short term and future succession planning for each board member."* Boards need to identify a pipeline of potential talent both within and outside the organisation. In addition, the board should continuously assess the existing organisational bench strength. *"Board churn is inevitable post-COVID-19. Some board members thrived while others came out as clearly lacking."*

- **Board Refreshment**

The pandemic exposed key performance issues at the board and executive levels, prompting many Chairs to review their composition. *"We need T-shaped board members. Re-tooling and re-skilling for the future is critical."* In addition, it became apparent to some boards the need to fill the existing skills gaps in the search for new directors and executives. *"When you get the skillsets and experience right, you get a good board." "The business of the future needs new skills. Make your board future-ready."*

Sustainability and Business Purpose

How is the board addressing the topic of sustainability?

"You are a member of the society; you just happen to be corporate."

"Organizations that do well should do right by society."

"A lot of businesses have paid lip service to ESG. Unfortunately, philanthropy is not ESG."

ESG is a critical factor among many entities driven by calls from investors, Governments, the public and, other stakeholders. *"ESG is now part of the landscape for any company worth its name."* Stakeholders are increasingly looking to the private sector to solve major socio-economic issues, including inequality and poverty, access to basic needs such as food, water, healthcare and education, and climate change. *"Yes, we are responsible but not for everything. The government should play its part." "We all pay Black Tax, supporting more than our nuclear family."*

- **Pandemic effect**

The pandemic crisis significantly impacted the workforce and society, with the most vulnerable in society being hit the hardest. Some businesses lost track of ESG initiatives as they focused on short and medium-term business continuity. *"You need financial strength and resilient systems to have the ability to react to any situation."* However, many Chairs felt that the pandemic had a silver lining. They indicated that the support provided to communities and the increased interaction with stakeholders during the crisis allowed them to reflect on their ESG programs. Detailed discussions were had on expanding and diversifying the revenue streams for various businesses, the need and level of investment required in technology-enabled systems and processes and risk sensing the ecosystem with a broader lens. *"Now that panic has abated, we have a greater consciousness that we have a problem and need to do much more to be a resilient /sustainable business."*

- **Profit versus ESG**

The primary concern for many organisations has been allocating resources to support ESG objectives while meeting the profitability objectives of their shareholders. *"Businesses need to have robust links with suppliers, distributors, marketing systems and customers."* As organisations grow, they can afford to give resources towards ESG initiatives. However, while they recognise the significance of ESG, it remains a luxury for the average company in the region. *"How will you sustain your business in a situation where COVID-19 impact continues?"*

- **Global influence**

While ESG is a shared agenda globally, many Chairs feel that it is yet to pick up locally. Sectors exposed to foreign capital have made more significant progress on the ESG journey due to compliance requirements imposed by foreign investors such as institutional investors, international development financial institutions, and sovereign funds. In addition, there has been a push from parent companies for multinational companies operating locally, leading to early adoption and incorporation of ESG initiatives. As a result, an opportunity exists for local companies to catch up with the rest of the world and ESG leaders in Africa, increasing their competitive edge and improving their social capital. *"We are a global village. We need to be alert to what is going on - eventually, it will impact us."*

- **Public and Private sector collaboration**

Partnerships between the private sector and the Government grew, with some key parastatals offering support to the Government in its effort to control the spread of COVID-19. For example, the Kenya Pipeline Company Limited (KPC) produced over 1.5 million litres of sanitisers for free distribution to Kenyans across the country. KPC achieved this through a partnership with over twenty-seven (27) corporates, including oil marketing companies, sixteen (16) government institutions

and hundreds of Community-Based Organizations (CBOs)[56]. Some corporates, including Diversey East Africa and Kenya Wine Agencies Ltd (KWAL), restructured their operations to manufacture alcohol-based sanitisers[57]. KPC also funded the manufacture of 1.5 million masks by the National Youth Service[58]. EABL provided 0.135 million litres of free alcohol-based sanitisers through partnerships with HACO industries[59]. In Uganda, Uganda Breweries Limited donated Kshs 1 million worth of medical equipment to the Intensive Care Unit (ICU) at Mulago National Referral Hospital[60].

Some Chairs felt that the public sector is yet to pick up the full ESG agenda. Our research showed that the Government of Kenya, for example, has implemented multiple initiatives, passed policies, and drafted plans as part of its commitment to sustainability. Different regulators have also issued various guidelines towards ESG and sustainability. *"The rules are ok; the challenge is in the execution."* There was a commonly held view among Chairs that the Government and regulators have a challenge in ensuring compliance which would go a long way in achieving the objectives of these measures. *"Some regulators need more bench strength to execute on their mandate fully."*

- **Young demographic driving greater accountability**

Some directors felt a lack of shareholder activism compared to developed markets such as Europe, North America, Japan, and Australia, where shareholders scrutinise companies for their environmental and social impact. *"Citizens and communities need to be more demanding of businesses that they do business with."* However, there is cause for optimism with greater access to information and increasing consumers' awareness of the effects of products. In addition, young people are using platforms such as social media to drive ESG conversations, demanding greater accountability of businesses. *"Our license to operate lies in how we engage with and give back to the communities we operate in." "The board should be representative of various demographics. For those not represented, there needs to be a way of channelling their views."*

- **ESG focus areas**

Businesses traditionally gave back to the community through Corporate Social Responsibility (CSR) programs. *"Very few boards have well-articulated and measurable sustainability goals."* However, businesses embarking on the sustainability journey are becoming more deliberate, specific, and creative on their ESG goals. The focus areas are guided by the United Nations Sustainable Development Goals (UN SDGs), the nature of their industries, and the challenges facing the communities in which they operate. *"ESG initiatives should be anchored on the business, respond to stakeholders and resonate with communities that the business operates in."* Businesses are starting to set challenging targets such as carbon emissions and green funding and tracking their performance through annual ESG reporting. Some companies have also set up foundations to drive their social initiatives. These foundations run independently and often partner with other organisations to create a more significant social impact. *"The ESG Agenda and focus areas need to be visible and factored into the board calendar for discussion."*

Board Dynamics

How was your transition from an Executive to a Non-Executive Director (NED)?

"I undertake my risk assessment before accepting any board position. I do not want to expose myself to unnecessary risks."

Directors recounted their experiences as they transitioned from Executive roles to Non-Executive Directors (NEDs). While these varied for each director, there were certain commonalities:

- The majority of the Directors who had transitioned from executive roles within the same company or industry had an easier time due to past experiences interacting with boards and directors.
  "You have to manage the creative tension of being a former CEO and remember you now have an oversight role."

  "The earlier the exposure you have to boards as an executive, the better your preparation and experience as a NED."

- Directors transitioning from different industries were under pressure to perform and had to invest time learning and understanding the business of the boards they were joining. *"It was a completely new company in a new sector with no precedents. We had to make the rules as we went along." "A board that agrees with everything does not add value to management."*

- Those who started their director journey in a regulated entity reported a smoother transition as the organisations had better structures and induction programs to help onboard directors. *"In the initial years, we groped in the dark in the absence of the King reports and the Centre for Corporate Governance."*

- Some indicated that the transition was challenging as there were no clear expectations and guidance for new directors at the time. *"I had no board experience; the expectations were not clear, and I had to sink or swim. I worked very hard to earn the role."* For others, the challenge came from their extensive knowledge and experience of the sector and entity and, therefore, initially not carrying everyone along.

  "As a former executive, you know where all the bones are buried."

  "Constructive challenge is what you should bring to the board room."

- Directors transitioning from executive to non-executive directors need to be conscious of their change in roles and responsibilities. There is a need for a mind shift from execution to providing oversight, advice, and guidance to add value rather than crowding the CEO and executive management. *"I have learnt to put myself in the CEO's position and make measured comments. For example, how would I respond to these guys who think they know the business more than me who runs it daily?" "Use your network to support the organization."*

What do you consider to be the characteristics of a good Non-Executive Director?

The role of a director is particularly challenging and demanding. However, interviewees agreed that specific characteristics contribute to being an effective director:

- **Integrity**

Integrity is vital for one to be able to fulfil their duties as a director. A good director values integrity and prioritises doing the right thing for the right reasons, always working in the best interest of the company that they serve. *"Finding good board members is not an easy task. We are trying to build a board pipeline over the next 3-5 years, and it is not easy. Maybe we do not know where to look."*

- **Commitment**

Directors confirmed that sitting on a board is time-consuming and does not just involve turning up for a few hours once every quarter. Directors need to commit to reviewing board papers in advance of the meetings, attending meetings, contributing

(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

to board discussions, and attending scheduled training and strategy sessions. *"Understand the business well to contribute effectively."* They should be ready to be called upon as and when they are needed to provide input. *"Avail the time required in the enterprise's best interest."*

- **Continuous learning**

Directors agreed on the need to continuously unlearn and relearn to stay relevant and up to date with the fast-paced business environment. A good director invests time to upskill and learn new things within and outside their key domains. *"My initial attitude was to only chip in when there was a legal question. However, you cannot just engage in your area of expertise. You have to embrace continuous learning."*

- **Board preparation**

Being prepared for meetings is an essential attribute to being a good director. *" You have to be well prepared and alert. You do not know when the Chair will ask you to unmute and be on video and contribute to the discussion."* To be adequately prepared, directors should read all their board papers before the meeting, share any questions/clarifications in advance, and research areas to be discussed as appropriate. *"Directors should interrogate all information availed and exercise their judicious minds." "Challenge the Executive constructively."*

- **Being open-minded**

Directors should be open to diverse opinions and respectfully engage with other directors and executive management when they have a different view. *"Personal responsibility is being eroded as board members become box tickers."*

- **Courageous and of independent mind**

Part of being an effective director is being brave enough to speak up in the boardroom, ask questions and not shying away from presenting a different opinion. *" Do not shy away from asking questions when you do not understand. You may not be the only one."* In addition, a director is expected to apply independent thinking to issues raised to the board, seeking additional advice if necessary. *"I waged a lonely battle in that board. My biggest regret to date remain when I walked out of a board meeting, penned my resignation but did not submit it."*

- **Resourceful**

Directors bring a unique wealth of strategic leadership and experience to the board. Directors are expected to leverage their networks for the benefit of the company. *"As a director, you need to recognise that you are on a board for a reason and should bring the experience and expertise to bear." "Reflect on how you can use resources available like regulators to work with management to get things right. They have a mandate to look at the effectiveness of organizations." "The Company Secretary is the conscious of the board and should have the courage of their conviction to report board proceedings as accurately as they took place."*

What do you consider to be the qualities of a good Chair?

"Good Chair, Good Board, Bad Chair, Bad Board" " It is better to have a flock of sheep led by a lion than a pride of lions led by a sheep." "One of my most challenging Chair experiences was like jumping from captaining a controlled boat to an air flight carrier."

When asked what makes a good and effective Chair, Directors shared the different characteristics and qualities they expect to see in Chairs of the board. However, the common attributes included the following:

- To be a successful Chair, you must learn to listen. *"Try to speak last, so other board members do not have to contradict you."*
- The Chair needs to learn her board members, understand everyone's strengths and leverage these for the benefit of the board. *"Harness every strength within your flock." "There is sometimes over-reliance on the Chair in young boards. You need to temper the expectations as the Chair and ensure each board member is recognized for the role and experience they bring to the board and bring out these differences."*
- A good Chair needs high emotional intelligence to read the mood of the board, manage different personalities and find ways of bringing harmony within the board. *"My role is equivalent to that of the Conductor of the Orchestra. I can play the other roles, but my best is Conductor."*
- The role of Chair is equivalent to the part of the Orchestra Master trying to bring out the best in everyone and letting all voices be heard. *"We undertake strength surveys of the board to draw upon their best and not focus on their weaknesses."*

(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

- The Chair needs to be consultative, well informed, and have good judgement. *"It is sometimes challenging to get to decision making whilst ensuring the need to be democratic in the process."*
- The Chair should be trustworthy.
- The Chair should not be conflicted and therefore has the moral authority to lead the board. *"There are Chairs taking refuge in collective responsibility and not exercising leadership on the board."*
- A good Chair is level-headed, patient and with a good grasp of issues under board deliberation. *"You need to be a good reader and interact with all stakeholders." "Being a Chair is like being the President; there are always several people bringing to you different versions of the truth."*
- Be a consensus builder. Allow the board to discuss the issues and then bring it all together. *"There can be a selective contribution by board members, courtesy of the Chair." " You need to pick the battles which will help you win the war."*
- A good Chair brings balance to the board discussions. *"Weigh your decisions with cause and effect analysis. What may seem the right thing now may not necessarily be the best decision tomorrow or overtime."*
- A Chair should be prepared for the meeting to remain on top of the discussion. *"Know when to lead from the front and when from behind whilst managing the various stakeholders."*
- A good Chair can manage dominant board members who may run away with issues. *"There can be unequal voices in the boardroom. The Chair needs to know how to pull out the voices that are softer and bring out their views."*
- Not everyone will like the Chair's leadership style. *"Give space to the Chair even if you could have done this in an hour." "Maintain an impassive stance while being alert to body language and other nuances in the board room."*
- Online meetings demand more of the Chair to ensure all board members are engaged and contributing to the discussion. *"This meeting could have been an email." "Board meetings should focus on resolution of key asks not presentations or questions which should have been shared beforehand and in good time and responses obtained."*
- A good Chair has a balanced relationship between the board and management and can mediate between the two. *"It is ok to defer some items and have informal discussions to iron out the differences." "I have had to have very painful and embarrassing one-on-one discussions with some of my directors to call out their bad behaviour and to ensure that it does not happen again."*
- The Chair should be available to management and other board members as appropriate. *"I set up a monthly Chairman's Brunch to enable meetings with my board members with no fixed agenda."*

Interviewees agreed that the Chair sets the tone for the board and the organisation.

What, in your experience, are the characteristics of effective boards?

When asked what makes a good board, Directors confirmed that to have an effective functional board, the following factors were critical:

Board composition

Board composition is one of the most critical areas of focus of a board, and if done correctly, it can be a strategic differentiator for a company. *"There is usually better cohesion when new board members are nominated by other board members than where this is a shareholder driven process."* Interviewees emphasised the need to have the right mix of people who bring diverse perspectives, business and professional experience to enrich board conversations. *"The need for different personality types in the board is not given required consideration and is rarely discussed."*

The virtual engagements during the crisis have opened the possibilities to tap into a wider talent pool of potential directors from other jurisdictions. Such directors could participate virtually in board meetings with intermittent physical sessions. *"We expend disproportionate effort in searching for and interviewing to get the right board member."*

Diversity

Directors emphasised the need to have a diverse board in terms of skills, gender, age, life experiences, culture, personality

types and network. Getting it right from the selection process to the induction of newly appointed members is vital. *"Diversity should not be a tick-boxing exercise."*

Directors agreed that gender balance has improved over time but emphasised having more women representation and younger directors in the boardroom. *"There needs to be deliberate intervention on the sufficiency of gender representation on some boards." "I was often the only female board member in the early years. We are still a minority."* One director noted that their board was more receptive to gender diversity discussions when a male member discussed the matter. *"In my experience, where there is equal gender representation, management and boards perform better."* A Kenya Institute of Management (KIM) survey[61] revealed an increase in gender diversity in Kenyan boards from 12% in 2012 to 36% in 2021. The survey also noted a decline in the average age of Kenyan board members from 55.8 years in 2017 to 47.6 years in 2021.

The pandemic experience illuminated the need to have a broader mix of skills within some boards. *"I put this more diplomatically in the board room, but if the pace is too fast for you, then you need to ship out of this board."* Skills in cyber security, digital and sustainability were indicated as some of the new requirements for new directors to bring unique views, perspectives and approaches to problem-solving.

Board Induction programs

Directors confirmed that having a good induction program for new directors sets the foundation and help them to familiarise themselves with the duties and responsibilities of directors generally. *"Time, money and effort should be expended towards the induction program."* In addition, the onboarding process should help new directors to learn the business and understand the business operations thoroughly. *"Conflict came from those who did not understand the business and its history."*

Directors confirmed that the regulated entities had more advanced and rigorous programs that ensured that directors were onboarded well and critical business information was provided. *" Create space for board members to interact with staff members and get a good understanding of the business."*

The CMA Code of Corporate Governance[62] Section 2.7 and the Mwongozo Code of Corporate Governance [63] provide guidelines on Board Induction. They require that each board establishes a formal induction program and ensures that every incoming member is inducted. Board induction enables newly appointed Board members to familiarize themselves with the company's operations, Senior Leadership Team (SLT) and the business environment to enhance their effectiveness in the board. Therefore, the induction program should be tailored to the knowledge and needs of the new director.

Director development

Continuous education is critical in ensuring that directors are executing their duties effectively. Directors agreed on the need to have a director development program that keeps directors updated on new and emerging issues and regulatory changes to help them stay on top of governance-related matters. *"What are your gaps in knowledge at committee and full board level? Do not just jump into the training bandwagon."* These programs should be tailored to individual director needs that focuses on the board's agenda and company strategy, including areas where the board anticipates innovation, uncertainty or disruption. *"Board training (some) in the Kenyan market should be refocused to real-life experiences and less theory."*

Directors also emphasised the need for new directors to learn and understand the business of the companies they govern to improve their contribution in the boardroom. Some directors stressed the need to focus on more than one's area of expertise and be willing to sit in other committees and be exposed to different fields. *"Navigate your way to other board committees and learn and grow."*

Focused agenda and board packs

An effective board follows the plan and ensures that the objectives of each meeting are achieved. Board packs are also well prepared and circulated or uploaded on digital platforms within the timelines prescribed to give board members sufficient time to review and engage on any queries they may have even before the actual meeting. *"Give board members sufficient information, in good time to deliberate matters effectively and thoroughly." "I gave up being frustrated about the late board pack." "We have moved from a 450-page pack to under 100 pages. We are on a journey." "We are, sometimes, as a board, the problem, we are given the same story quarter after quarter, and we accept it."*

Cohesion and mutual respect

Interviewees agreed that directors need to come into the board with a shared resolve to safeguard the company's prosperity. Humility to listen to one another is crucial in cultivating a culture of trust that augments transparency and sincerity of engagement in board operations. A cohesive board helps build synergies and confidence and creates an environment where directors can challenge each other robustly. *"Boards need to take time to know each other, learn each other's strengths and leverage on these capabilities." "The board is like a zoo. All the animals are there. You need to understand each animal and how it operates" "I sit on fairly professional and well-run boards. We focus on issues rather than personalities. The conversations are very respectful."*

Diversity of opinion

Challenge and build on each other. *"Genuine, sincere, authentic discussions will ensure better decisions." "Even where there are differences of opinion or perception, it is possible to get round to consensus building." "Sometimes the simplest questions and the answers thereof reveal a lot." "Harness the power of diverse thinking in the board room."*

Trust

Trust amongst board members was repeatedly indicated to enhance the ability to bring out the issues. Interviewees stated the need for trust and transparency in the board and with information or issues shared by management to create confidence and trust between shareholders, the board and management. *"Sometimes you do not know the brief some board members are holding, where they are coming from and who they conspired with before coming to the board meeting. You may need all your wits around you."*

Challenges leading to ineffective boards

"There are repercussions if the ship goes down under your watch."

The core purpose of the board is to provide oversight. Directors interviewed identified the following as some of the barriers to board effectiveness:

- **Conflicting interests.**

Members with other vested interests other than the shared resolve to safeguard the company's prosperity. *" I was handcuffed by a dominant management team that also comprised shareholders."* Examples were cited of board members who do not act in the organisation's best interest but for sponsors, appointees, or self-gain. *"A conflict of interest declaration is as good as the paper it is written on, if not genuine."*

- **Uncontrolled dominant members.**

Uncontrolled dominant members may hijack the board agenda and bring imbalance to the board. *"Chair, control your Board."* Conversely, ineffective boards also comprise weak board members who cannot exercise independent thinking and are quick to vote as asked. *"Some dominant board members may not be self-aware and need to be informed by the Chair or other board members."*

- **The board's membership is skewed by a representation of significant shareholders and their perspectives.**

Therefore, overall decisions differ from other directors who do not have a sufficient majority to carry the day.

"Why should I sit on this board and be held responsible, yet the group makes the key decisions?" "We spend a lot of time and effort inducting new board members and regularly avail information to understand the group's perspective." "The Group provides support while giving us leeway to address local context issues and chart our course."

- **Board members who do not listen to each other or have hidden agendas.**

"Sometimes there is political decision making in the board room." "Leave your iPhone and iPad outside the meeting room. You need to focus."

- **Directors who do not have sufficient understanding of the organisation in addition to their roles and responsibilities, including the guardrails therein.**

"Bring your mind to the board meeting, and you will find that you add value."

- **Lack of clear governing frameworks.**

Lack of clear governing frameworks board charters and terms of reference for committees and required guardrails. *"Chairs come and go. You need to institutionalize governance processes." "We discussed, agreed and minuted a proposal as a committee only for my colleagues to backtrack on me at the full board meeting."*

- **Lack of structure in board meetings.**

"There are hours beyond which a board meeting is counter-productive. The law of diminishing returns applies." "Sometimes management do not apply their minds to the issues at hand by not doing what they committed to or delaying the provision of the information. The results are ineffective meetings and discussions."

- **Lack of discipline by directors.**

Lack of discipline by directors by not keeping time and not reading board packs before meetings and therefore not well prepared for board deliberations. *"During my time on the board, the quality of the board packs improved significantly." "You need to be well prepared and not be bamboozled by management and be a walkover."*

- **The quality of the information and timeliness of board papers submitted to the board for review is essential.**

"As a former Chief Executive, it is easy to see where information is being withheld or not forthcoming." "I realized that in my earlier experiences, we were being micromanaged by executive management. They only made available what they wanted us to know."

- **The inability for board members to admit that they do not know.**

"How can I purport to know the best course of action after a 3-hour meeting and not the executives that have spent countless hours on the same issue?"

- **Non-engaged board members who are seemingly there for the status, do not engage their minds with the issues at hand and are quick to vote yes to any ask**.

"What went down at the committee level? The Chair needs to understand the real juice of sub-committee discussions."

- **Lack of respect and trust in the board room.**

"Let the facts persuade us as we work towards consensus building" "Be willing to walk away from the directorship."

- **Lack of a safe environment to express views.**

"Be willing to stand alone if necessary." "There should be provision for the recording of dissenting votes even as the majority carry the day." "Why hold your thoughts and then complain afterwards?"

- **Lack of sufficient focus on strategy and long-term perspective of the organization plus required changes as the marketplace shifts.**

"Most organizations were caught napping on strategic focus."

"We have moved from 27 to 30 agenda items to a standard 8."

- **Inability to make decisions efficiently.**

"The agenda was loosely followed. As a result, we were often down a rabbit hole three hours later."

- **Lack of independence.**

"Conflict declaration is now a necessity for Boards. However, there is a need for declarations to be genuine and factual and not just in appearance or to tick a checklist." "Follow your conscience."

Board Compensation

"It is presumed that you are already engaged in other income-generating activities and not dependant on board fees."

Remuneration of directors is one of the most debated topics in corporate governance, with increased scrutiny by shareholders and the public.

Most interviewees agreed that the current compensation levels in both private and public sectors were not commensurate with the risks and responsibilities assumed. The following views were expressed:

- **Roles and responsibilities**

Boards, have witnessed increased professionalisation. The positions have become more demanding with the need for more time commitment on companies' affairs than historically done, with increased fiduciary responsibility, personal liability, and exposure to reputational risks. In addition, boards in

regulated industries have increased roles and duties due to more compliance requirements. While some directors felt that current compensation is fair, a majority opined that board remuneration should be commensurate to the increased responsibilities and risks assumed.

"Compensation of board members should be commensurate with the value they bring to the entity."

Some directors indicated a lack of appreciation of their roles and responsibilities, indicating that some companies viewed it as a privilege to serve on their boards.

"Being on the board used to be a privilege, now you need first to assess the potential liabilities that can accrue to you."

- **Private institutions Versus Public/Government institutions**

There is a significant disparity in board compensation by private and public/government institutions.

While the public institutions follow a prescribed board compensation schedule, directors agreed that there is room for improvement given the perceived risk presented by public institutions. Most directors believed that adopting and implementing the recommendations in the October 2013 Presidential Taskforce on Parastatals Reforms[64] report would improve the current situation. *"Do not hold meetings for the sake of increased compensation." "In the public sector, as a director, you are like a consultant. The government pays consultants handsomely. Why not directors by first getting the right persons on the boards?"*

- **Talent**

Interviewees indicated that boards requiring the best of brains must be willing to compensate their directors proportionate to their skills. *"If I am not being paid for my time and value, I can get it elsewhere."*

Directors with an evident appreciation of their responsibilities will execute their roles effectively without attaching remuneration to their efforts. *"If joining a board for remuneration, one should not be considered." "What value are you bringing to the board before you take the money away?"*

- **Mechanisms of remuneration**

Lack of consistency in determining board compensation was noted across the different companies that directors served. *"There is no hard and fast rule on board compensation, and one size does not fit all."*

The approach of remunerating directors per meeting attended was questioned by some interviewees. Some directors suggested a performance-based remuneration with clear and measurable performance indicators that would ensure remuneration based on the input by the directors. *"There should be further research on performance-based pay for board members. It will help to attract the right calibre of directors."*

The CMA Code of Corporate Governance Guidelines[65] provides board remuneration guidelines for companies listed in the Nairobi Securities Exchange. Section 2.9 of the Code requires companies to remunerate Board members fairly and responsibly. The Code mandates the board to determine the directors' remuneration sufficient to attract and retain directors to run the company effectively and is approved retroactively by the shareholders in the Annual General Meeting. The compensation of the non-executive directors should also be competitive and in line with compensation for other non-executive directors in the same industry. *" You need to pay your board members well enough to make it worthwhile for them to do what is required to be an effective director."*

The Mwongozo Code of Corporate Governance guides board remuneration for state corporations. Section 5.2 (c) requires shareholders to approve compensation for Board members. The compensation for the Chairpersons and Board members is determined by the State Corporations Advisory Committee (SCAC) as guided by Section 10 of State Corporations Act CAP 446. The SCAC provides advisory to the Government of Kenya on the general administration of state corporations and advises the President on the establishment, reorganisation or dissolution of State Corporations and categorisations of State Corporations. *"The inadequacy of board compensation in state corporations opens the door to nefarious behaviour."*

Table F of the Uganda Companies Act 2012[66] recommends payment of sufficient remuneration to retain quality directors. It requires the declaration of individual directors' compensation, share options and other benefits in the annual report. The shareholders should approve the share options granted to non-executive directors. The Act proposes issuance of shares over granting share options to directors to avoid

loss of independence. *"There is a lot of hard work by boards and management in the public sector. There needs to be more recognition for this."*

King IV [67] recommends using performance measures that support positive outcomes across the triple context (financial, environmental, social) in which the organisation operates and all the capitals that the organisation uses or affects. This is a departure from linking remuneration to financial performance only and requires an account of the performance measures and targets used as a result of variable remuneration awards. *"Board members are non-executives, and their pay cannot be pegged on executive pay."*

Directors recommended that companies perform a benchmarking survey or analysis against peer companies within the same industry while coming up with remuneration recommendations. Suggested factors included the size of the company and market conditions and tailoring this to the company's unique circumstances, the responsibilities assumed, and the experience and expertise of individuals. *"Stay the course and make a difference. Compensation alone should not be a reason for quitting."*

The New York Stock Exchange (NYSE) Corporate Governance Guide[68] notes a greater focus for a mix of director's equity compensation with cash compensation. Equity compensation provides direct economic alignment to the shareholders whom they represent. The compensation mix is also consistent with the senior executives pay mix. The guide acknowledges the evolution of director compensation levels occasioned by the dynamic regulatory requirements and typical director roles. It provides contemporary best practice compensation to directors comprising of:

a. annual cash retainer representing about forty (40) to forty-five (45) per cent of total director compensation. Some smaller to medium-size companies, however, continue to use meeting fees with a small annual retainer;

b. annual equity award most often delivered through full-value shares that vest after a specified time, representing about fifty-five (55) to sixty (60) per cent of total director compensation. Some companies, however, have continued to use stock options combined with full-value shares;

c. extra retainers for leadership positions such as the non-executive Chairpersons. This has also included members of committees perceived to carry a heavier workload, such as the audit committee, and (d) stock ownership guidelines representing three to five times the annual retainer.

Advice for Future Directors and Board Chairs

As you think about the next generation of Directors or Chairs (e.g. your successor), what three pieces of advice would you offer them?

When asked what advice they would give to the next generation of directors as they look to join and serve in Board, Directors shared the following:

Motivation

Serving on boards requires a commitment to investing time, emotional and mental energy, and the opportunity cost of spending time on other things. Therefore, it is essential for young professionals aspiring to be directors to have the right motivation to serve on boards. Directors cautioned that it is not a glamorous job as perceived by many, and one should be prepared to roll their sleeves and do the hard work. *"Liabilities are accruing, complex decisions to be made, ethical dilemmas to be faced. So do not just say yes to a board position. Do your homework first."*

Mentorship

Directors advised aspiring professionals to identify mentors already serving on boards and walk the journey with them. If possible, it was recommended to get a mentor serving in the calibre of boards that one is interested in. The right mentorship would make the transition smoother.

Volunteer positions

Directors agreed that volunteer positions in not for profit organizations or charities provided good exposure to young directors. *"There is a lot of learning as these boards work towards putting and adhering to the right governance structures and systems in the absence of prescribed regulatory requirements."*

Start early

"The earlier you get exposed to the Board as an executive, the better you learn to be a good non-executive director."

Advisory boards

Interviewees advised the next generation of directors and Chairs to consider having a panel of advisors they could call to provide expert advice when required to enable the board to make informed decisions. *"The board's access to the right level of guidance is essential for them to make decisions having understood the full implications."*

Due diligence

Directors emphasised the need to research the board you are looking to join. Aspiring directors should determine if the company is the right fit for them and whether their values align with the company they are interested in serving. A review of the annual reports, audited financial statements, and other publicly available information should provide helpful insights into an organization. *"Be selective about the boards you choose to join."*

Availability

Directors advised on the need to have adequate capacity to dedicate time to board work.

(All coloured italicised text are direct quotes from Chairs and NEDs collected during the interviews.)

Perspectives from Chairs in Other Regions

Our colleagues in New Zealand, the United Kingdom, South Africa and Australia also researched with the Chairs in their communities. Despite the differences in geographical locations, timing, severity and impacts of the COVID-19 crisis, similar themes came through in the research as highlighted below:

- **Social Responsibility and Purpose**

Chairs agreed that business should play an active role in society and repeatedly articulate its broader societal purpose. Society is looking to see enterprises take meaningful action and authentically make environmental, social, and Corporate Governance commitments.

(Insight, Deloitte NZ[69], AU[70], ZA[71] and UK reports)

- **Digital Transformation and Innovation**

In the wake of the pandemic, Chairs have witnessed increased demand for digital capabilities required within their organisations. The sudden reliance on virtual tools accelerated the use of digital platforms and systems for many businesses. As a result, advances in technology such as automation, blockchain, robotics and AI are fundamental.

(Insight, Deloitte UK, NZ, AU and ZA reports)

- **Engagement with a broader ecosystem of stakeholders**

The days of the shareholder as primary stakeholder are gone. Chairs acknowledged that the COVID-19 crisis has made them consider and expand their view of stakeholders to include the full spectrum of employees, customers, suppliers, and the community. They need to build and maintain trust with all stakeholders.

(Insight, Deloitte AU, UK, NZ and ZA reports)

- **Financial and Operational Risk and Resilience**

Financial and operational risk and resilience were given special consideration in response to the board's desire to maintain a sustainable business for all stakeholders. Enhancements included ensuring adequate liquidity in response to disruption to revenue streams, taking appropriate measures to safeguard the work and securing access to critical supplies.

(Insight, Deloitte UK and NZ reports)

- **Enhanced relationship between Board Chair and CEO**

The crisis presented the opportunity to deepen the relationship and trust between Chair and CEO, driven by more frequent catch-ups and updates. Chairs with crisis and recession experience played a critical role in advising their CEOs and executive leadership team on crisis management, strategy, and operations while maintaining governance and management separation.

(Insight, Deloitte AU, UK, NZ and ZA reports)

- **Prioritizing the well-being of people**

An important lesson learned from the COVID-19 pandemic is that staff wellbeing in all its facets should form an integral part of healthy work culture. In addition, it acted as a reminder for everyone that an organisation's greatest asset is its people. As a result, organisations went above and beyond to ensure the health and wellbeing of their people.

(Insight, Deloitte AU, NZ and ZA reports)

- **Embracing Diversity**

Diversity of thought, skills, experience and background became more critical than ever during the crisis. Diversity is a business

imperative that will create value and new perspectives. Organizations need to ensure a diversity of all forms on the board to drive productive debate and discussions.

(Insight, Deloitte AU and SA reports)

- **Focus on ESG**

Changing employee needs and customer and community demands have prompted a shift towards ESG, becoming a part of the fabric of boards. Boards must therefore ensure that m oving forward they have a robust ESG framework that encourages behaviours required to protect their reputation and community standing and build long-term sustainable value for shareholders.

(Insight, Deloitte UK, ZA and AU reports)

- **Organizational agility**

The pandemic revealed the necessity for increased agility in business operations. As a result, many Chairs are now evaluating how they can ensure the business retains the advantages of increased pace and agility without losing control.

(Insight, Deloitte UK and NZ reports)

- **Strategy**

The pandemic required boards to refocus and strategize to adapt to the evolving situation. Boards used this time of uncertainty to test and validate their strategy. In Australia, when Chairs were asked about strategy, their minds quickly turned to digital acceleration.

(Insight, Deloitte NZ, AU, ZA and UK reports)

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