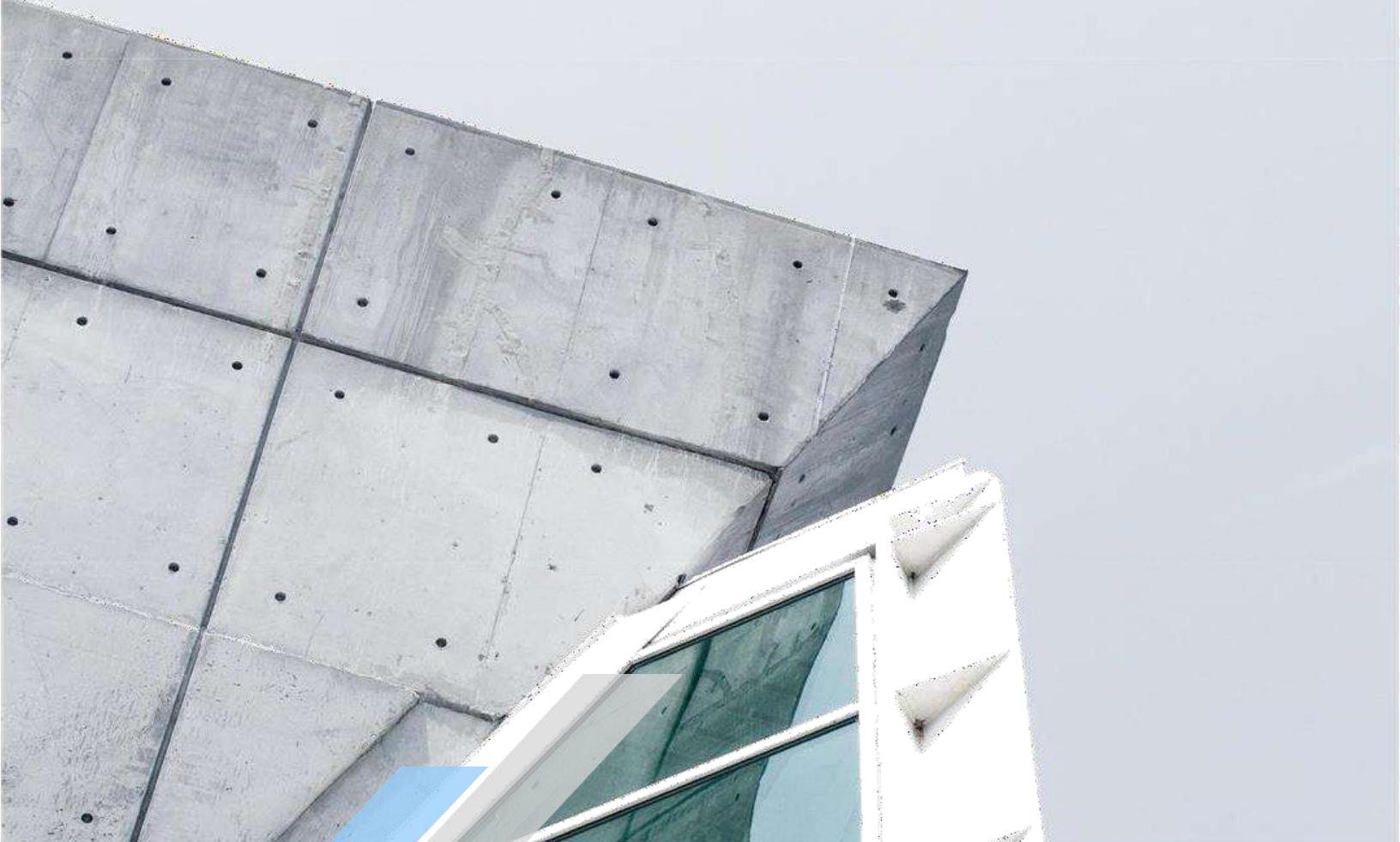




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Changing Role of Independent Directors on Board during COVID – 19

**Centre for Independent Directors'
Research Team: Dr. K. Tara Shankar | Dr. Niraj Gupta**

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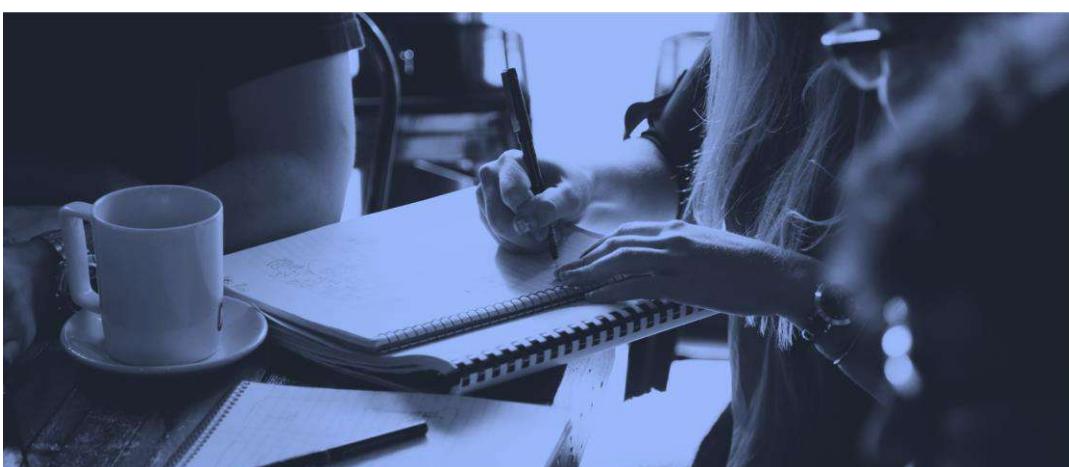
Executive Summary

The present study, 'Changing Role of Independent Directors on Board during Covid 19' analyses Independent Directors' role change on the board during the pandemic. The purpose of the study is to explore Independent Directors' perceived role change on the Boards during Covid 19.

The study uses primary (survey questionnaire) and secondary data (journals, newspapers, websites) to identify the perception of Independent Director's changed roles during Covid 19 and to study the impact of identified perceived changed role of Independent Directors. A sample of respondents has been taken from ID Data Bank. Out of 2000 mailed questionnaires, 127 responses were collected from the directors who attended the meetings during the pandemic, and 97 responses were found correct for further research. For analyzing the data, Exploratory Factor Analysis, Enter method of regression was used. Exploratory Factor Analysis was used to explore the perception of the Independent Director's changed roles during the Covid 19 pandemic; regression to identify the impact of the identified changed role. The study could not collect data through offline mode; hence, in online mode only due to the pandemic.

Even after limitations, the study was conducted, and the following interesting insights are drawn:

- Four perceived role changes were explored in the study
- Compliance role change, general role change, financial role change, and corporate reputation role change.
- The Compliance role was the most important role changes which Independent Directors on Board perceived during Covid-19.



Introduction

COVID-19 has been declared a health pandemic by the World Health Organization, impacting people's health and having extreme effects on society and the global economy. We suddenly real superheroes are those who are the healthcare professionals fighting Covid 19 on the frontline. There are also not to be forgotten heroes who are actively fighting on the struggling economy's frontline. These are known as boards of companies and businesses that keep the economy alive and contribute to the livelihoods of millions of employees, stakeholders, and other beneficiaries in society.

A sensible response to the crisis includes business continuity, challenges at leadership position, importance of human capital, back-up plans, etc.

For Independent Directors, a positive response is likely to be rooted in a deep understanding of their role during this unforeseen event. Knowing their role importance, when and how much to engage and when to engage in external activity—such as communicating with stakeholders, regulators, and others matters.

The Independent Director acts as the stakeholders' representative and ensures that the company's management does not compromise their investments. Independent Directors need to maintain board discipline, a cool head, detachment, and good judgment under the chair's guidance and leadership.

This crisis came without any warning signals, and the Risk Management committees of the companies were not prepared for such a kind of economic impact. To cope with this unforeseen situation, boards need to think from a different perspective, which leads to changing boards' role.

Objectives of the Study

The research has been conducted with the following objectives and hypothesis:

- To identify the perception of changed roles of the Independent Director during the Covid 19.
- To study the impact of the identified perceived role change of the Independent Directors during Covid-19.



Literature Review

Background

On the board of directors, three types of directors are normally dealt with in the literature: inside directors (who are currently working in the company), grey directors (who are non-executive directors but have relationships with the company, management, or block holders), and independent directors (who are non-executive directors and have no such affiliations). Among board members, independent directors appear to play an important role in protecting the shareholders' interests because of their independence from insiders, management, and the firm's business activities. As a result, companies with more independent directors are more likely to be better positioned to protect shareholders' interests. Besides that independent directors can support executives with their expertise, skills, and experience, apart from their monitoring function. As an outsider, an independent director can challenge the executives, ask questions, engage in discussion and debate on the company's activities so that they could contribute to enhancing management performance and, by that means, improving firm performance.

Changing Role of Boards during Covid 19 Crisis

Covid 19 represents a crisis for almost every board of directors today. Production crisis, supply chain issues, liquidity concerns, financial strains, compromised workforce, a change in working method, etc.

For the board of directors, a good response is expected in a deep understanding of the board's role -knowing when to step in and when to restrain, and how and when to pitch in external activity- such as communicating with stakeholders, regulators, and others.

In a crisis, boards play a key role in reinforcing the organization's purpose with management, engaging leaders of social obligations, and making sure that, even in the worst stage of the crisis, the organization's responses serve the organization's heart.

Particularly in a crisis like Covid 19 that so badly affected people's health and well-being- the board can play a role to ensure that the business is demonstrating to employees, customers, communities, and the organization's broader working mechanism that the organization has their best interests at the core.

Crisis response to Covid 19 remains firmly in the executive domain, requiring executive direction and hands-on operational intervention to implement and communicate decisions under these toughest circumstances. But an organization's crisis response to the virus is proving to be also about being externally focused: stakeholders, shareholders, regulators, and others will be in the mix. With the scrutiny and with the organization's viability potentially on the line, the board cannot be a bystander. Stepping in might feel uncomfortable, but stepping aside may not be possible either. Paying attention to the possible blurring of the lines while talking openly about the risks and opportunities of board involvement during this unsettling time will help the executive and help the board be the most effective.

Research Methodology

Hypothesis

H01: There is no significant association between change in financial roles and perception of independent directors during Covid

H02: There is no significant association between change in Compliance role and perception of Independent Directors during Covid

H03: There is no significant association between change in corporate reputation role and perception of Independent Directors during Covid

H04: There is no significant association between changes in the general role and perception of Independent Directors during Covid

Research Design

The research design for the study was exploratory cum descriptive. Exploratory because the study was an empirical investigation to identify the perception of the Independent Director's changed roles during Covid 19 pandemics and descriptive because there has been extensive literature reviewed to make the concept more explicit.

Descriptive research design is widely used for describing the characteristics of a specific phenomenon, individual, or a group (Kothari, C.R. 2004). Glass & Hopkins (1996) stated that descriptive research design involves the collecting of data that explain the events and then organizing, tabulating, depicting and describing the collected data. Descriptive research design provides a better understanding of the data by using graphs and general statistical tools and hence empowers the investigator to think of ways in which the data can be explored and analyzed. In this study, descriptive research design has been used for getting deeper insights into the collected data by using graphical and general statistical methods.

Exploratory research design is used to explore new insights and ideas related to the concerned area. This research design is flexible enough and involves qualitative investigation. Malhotra and Dash (2016) stated that exploratory research design is "one type of research design, which has as its primary objective the provision of insights into and comprehension of the problem situation confronting the researcher." A limited number of research conducted on the independent directors' perceived role change on board during pandemic justified the current research design. Under the exploratory research design survey of literature and experience survey approach has been used. A Survey of literature is the most powerful and fruitful method to formulate the problem and hypothesis. In an experience survey, the researcher contacts the persons who have real experience with the problem to be studied.

Research Methodology

Sample Design

The sampling technique used for collecting data was Purposive sampling. Because of the limitation of time and financial resources, it was not possible to study the census. Therefore, a sample of respondents has been taken from ID Data Bank.

Data Collection

Both primary and secondary data have been taken for the study. Primary data has been collected through the questionnaire technique. The questionnaire framed under this study was semi-structured divided into two parts. Part A covers the demographic information, and Part B covers responses on statements related to the perception of role change of the Independent Director during the Covid 19 pandemic, based on a five-point Likert scale with scale anchors from "1" – strongly disagree to "5" – strongly agree. Secondary data has been collected through books, journals, articles, newspapers, and websites.

Out of 2000 distributed questionnaires, 127 responses were collected from the directors on board who attended the meetings during Covid 19, and 97 responses were found correct for further research. The questionnaires were only mailed to the independent directors on board, keeping the norms of social distancing in mind.

Statistical Tools Used

Collected data were coded and entered into the SPSS 21 spreadsheet for analyzing the data. For analyzing the data, Exploratory Factor Analysis, enter method of regression was used. Exploratory Factor Analysis was used to explore the perception of the Independent Director's changed roles during the Covid 19 pandemic, and regression was used to identify the impact of the identified changed role.

Ethical Assurance

It has been ensured that participants are well informed about the aim of the study. The research is ethically reliable as it has been assured that no ill-acts have been conducted to collect the data. The respondents of the questionnaire were well informed about the purpose of the data and knew where the data would be used.

Data Analysis and Interpretation

In the previous chapter, the study discussed collecting the data and selecting tools for analyzing it. With the help of appropriate statistical methods and tools, the data have been analyzed. This chapter will help the reader in gaining insights into the collected data.

Gender

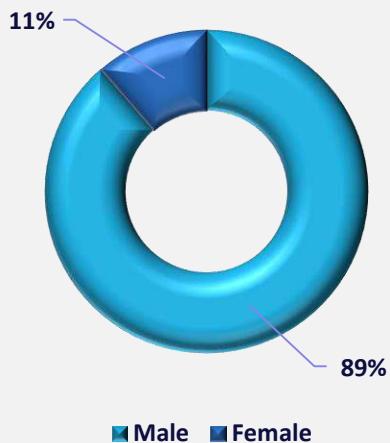


Figure 4.1 reflects that 89 per cent of male and 11 per cent of female Independent Directors have attended the board meeting during the Covid period.

Figure 4. 1 Demographic Analysis

Total Experience in Years

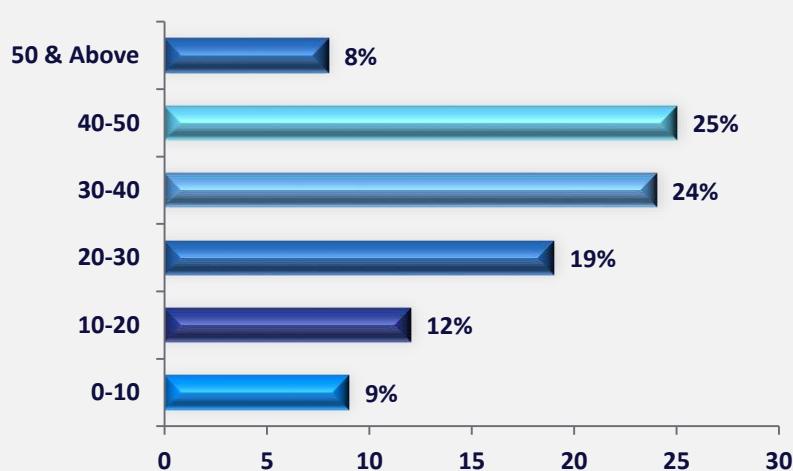
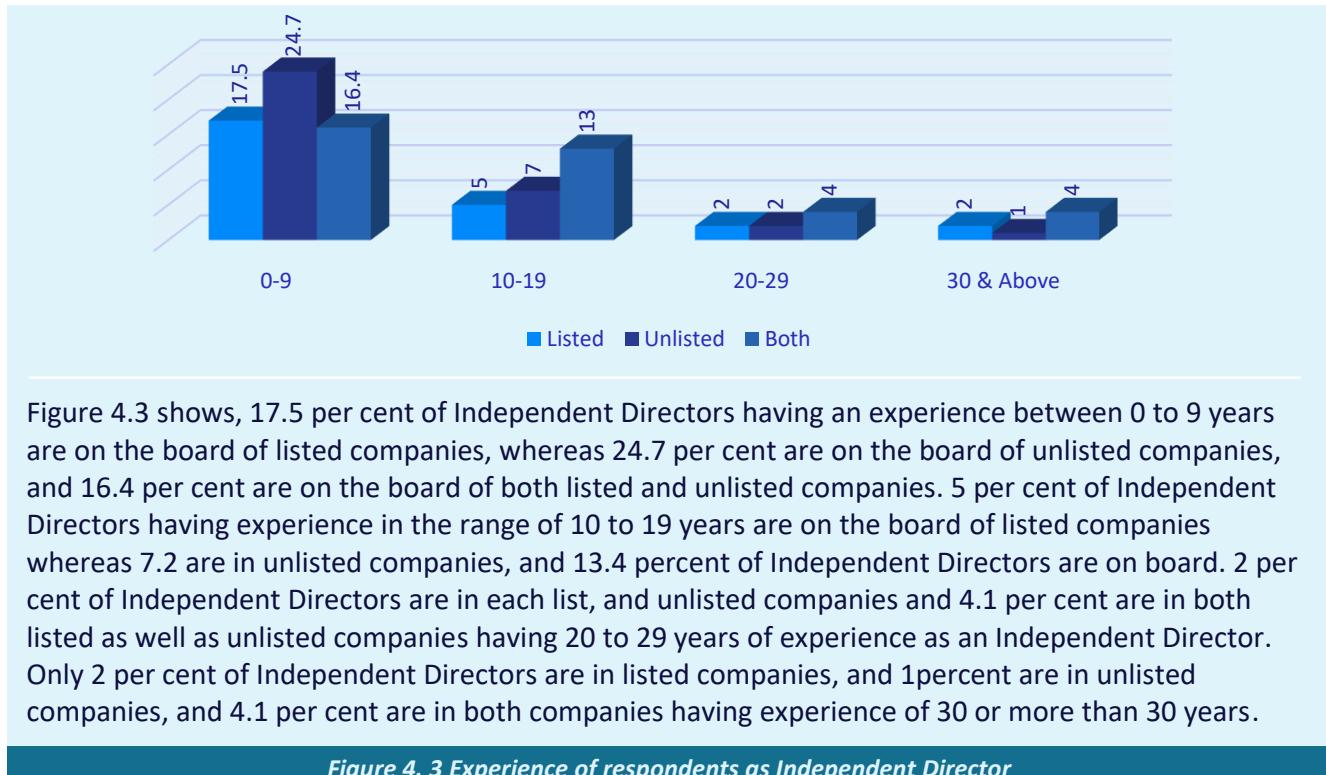


Figure 4.2 shows that the maximum percentage of present Independent Directors had total experience in the range of 40 to 50 Years.

Figure 4. 2 Total Experiences of respondent

Data Analysis and Interpretation

Experience as Independent Director



Change in Role During COVID

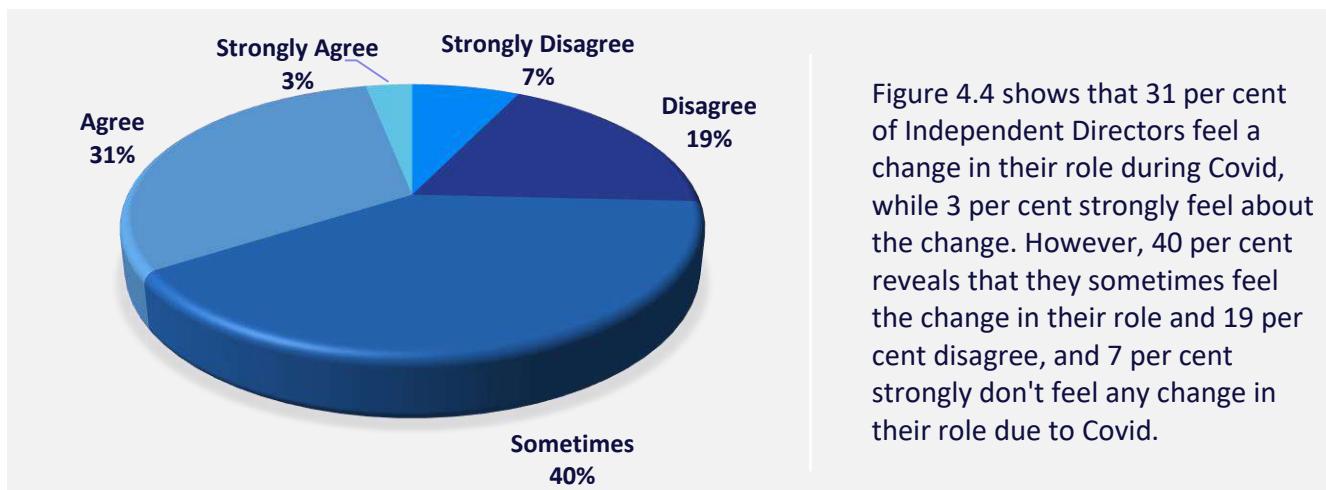


Figure 4. 4 Opinion about the change in the role during Covid

Data Analysis and Interpretation

Companies Expectations from Independent Directors' Changed During Pandemic

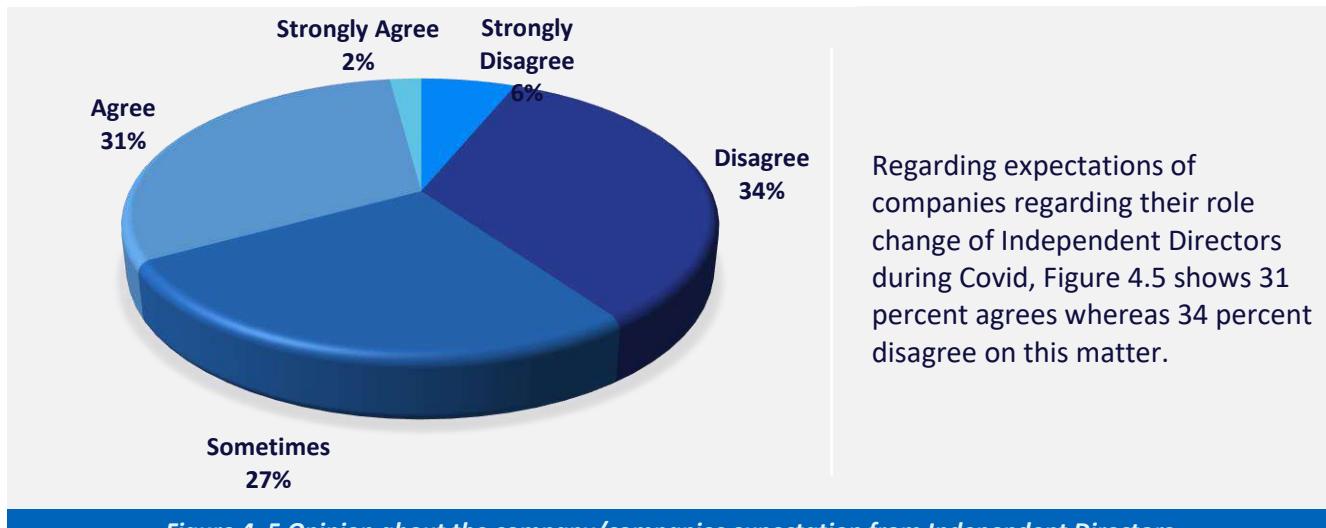


Figure 4. 5 Opinion about the company/companies expectation from Independent Directors

Difficulty in Taking Decision During Covid

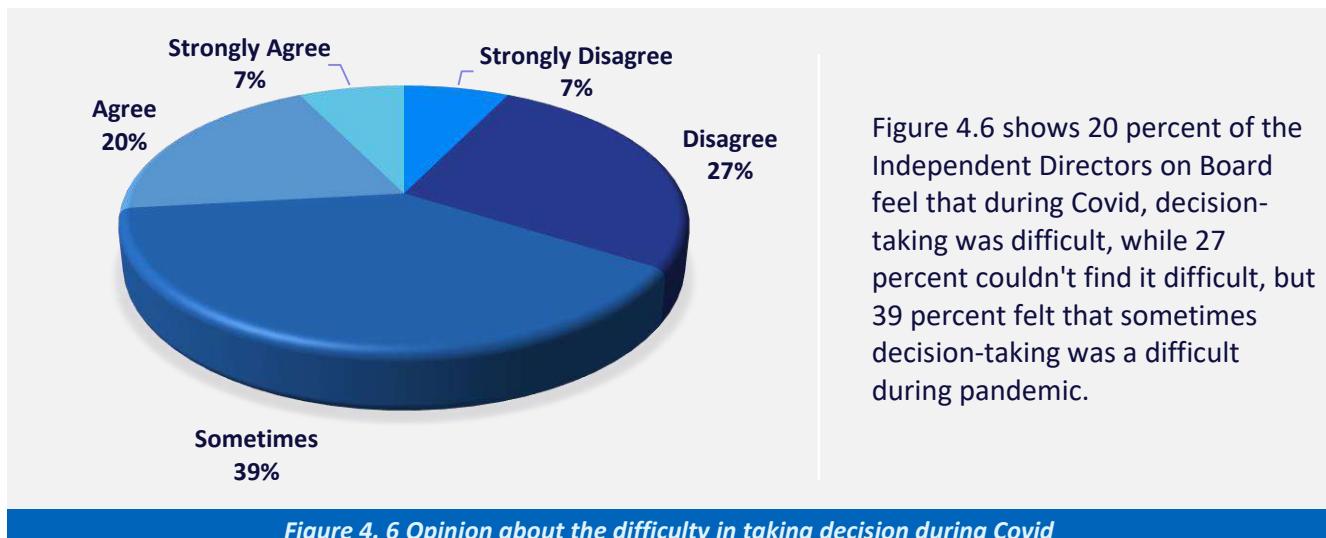


Figure 4. 6 Opinion about the difficulty in taking decision during Covid

Data Analysis and Interpretation

More Focused On Role During Covid

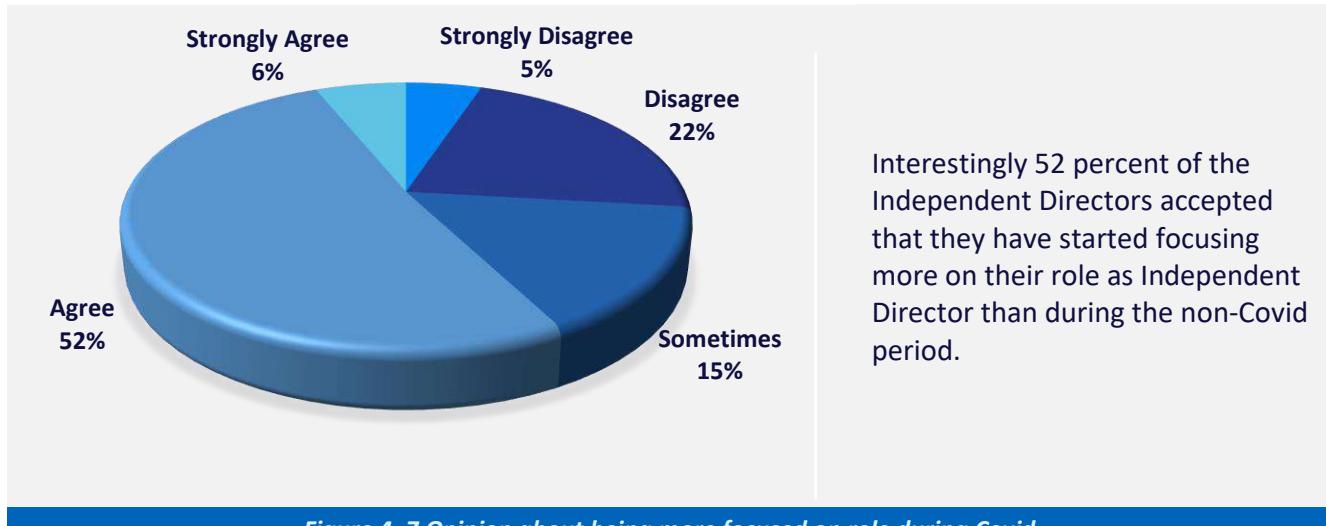


Figure 4. 7 Opinion about being more focused on role during Covid

Revisit Revenue Streams During Covid

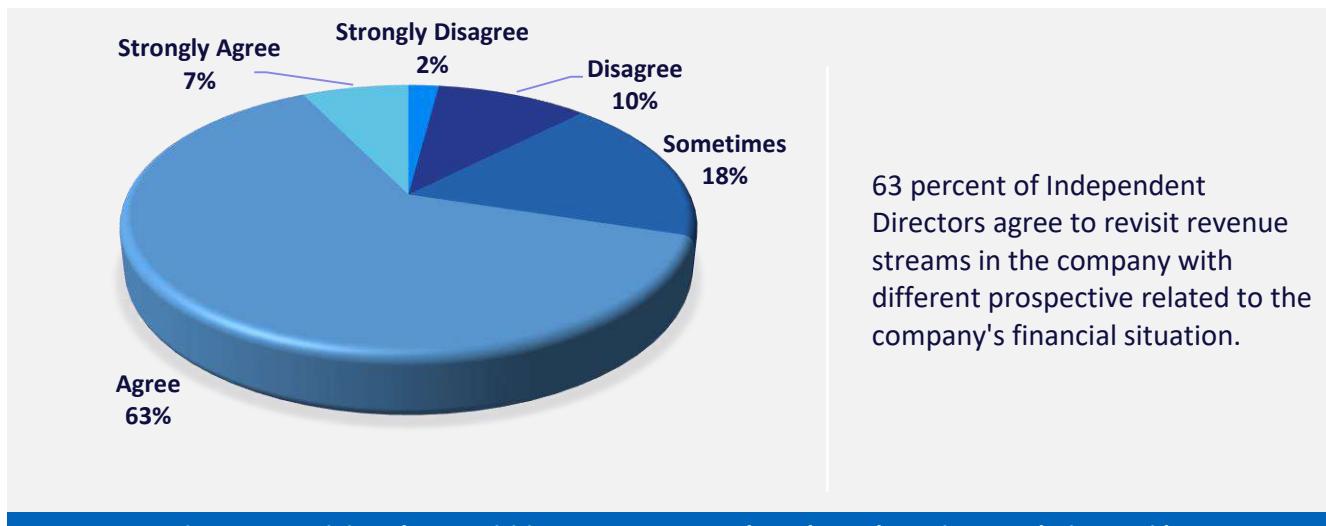
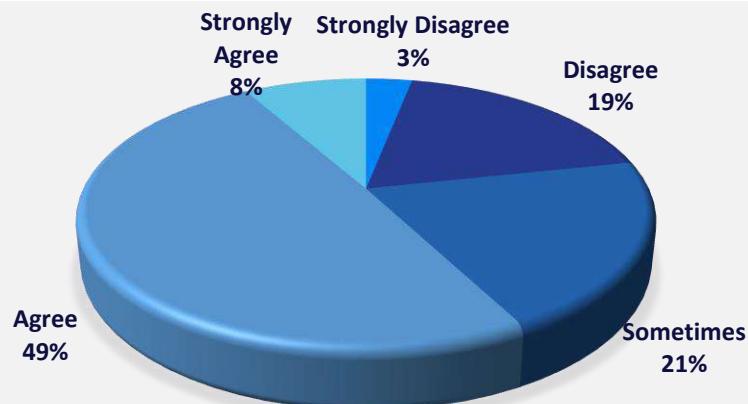


Figure 4. 8 Opinion about revisiting revenue stream by Independent Directors during Covid

Data Analysis and Interpretation

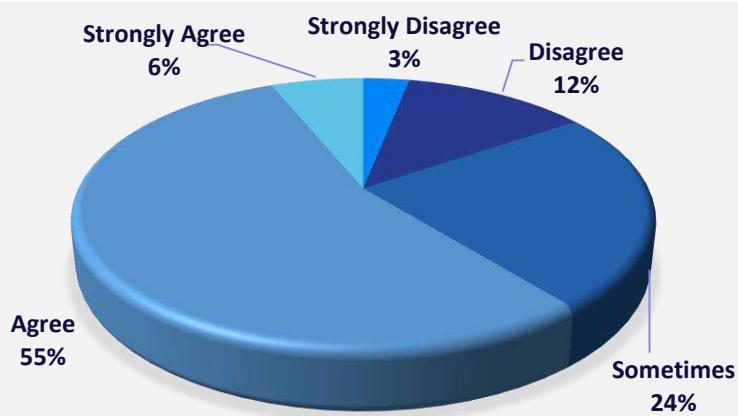
Monitoring Working Capital



49 percent of the Independent Director feel that monitoring working capital will change during Covid, while 19 percent do not think so.

Figure 4. 9 Opinion about monitoring of working capital

Cash Commercialization Measures



55 percent of Independent Directors agree that they have a different look at cash commercialization measures during Covid, while only 12 percent do not agree.

Figure 4. 10 Opinion about cash commercialization measures

Data Analysis and Interpretation

Change in Compliance Role

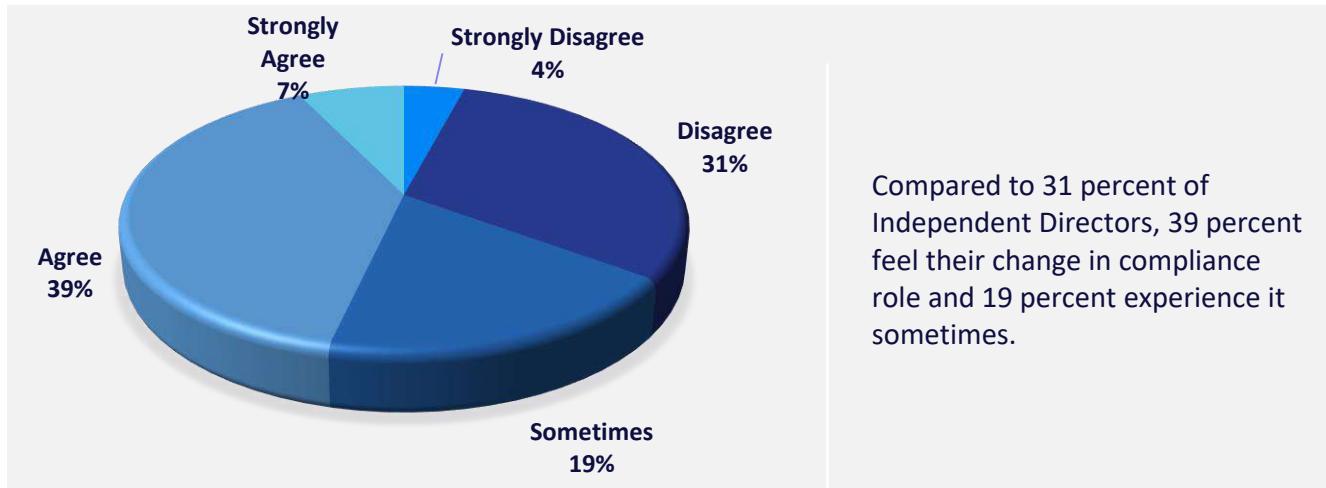


Figure 4. 11 Opinion about change in compliance role

Implementation of Covid Relief Measures

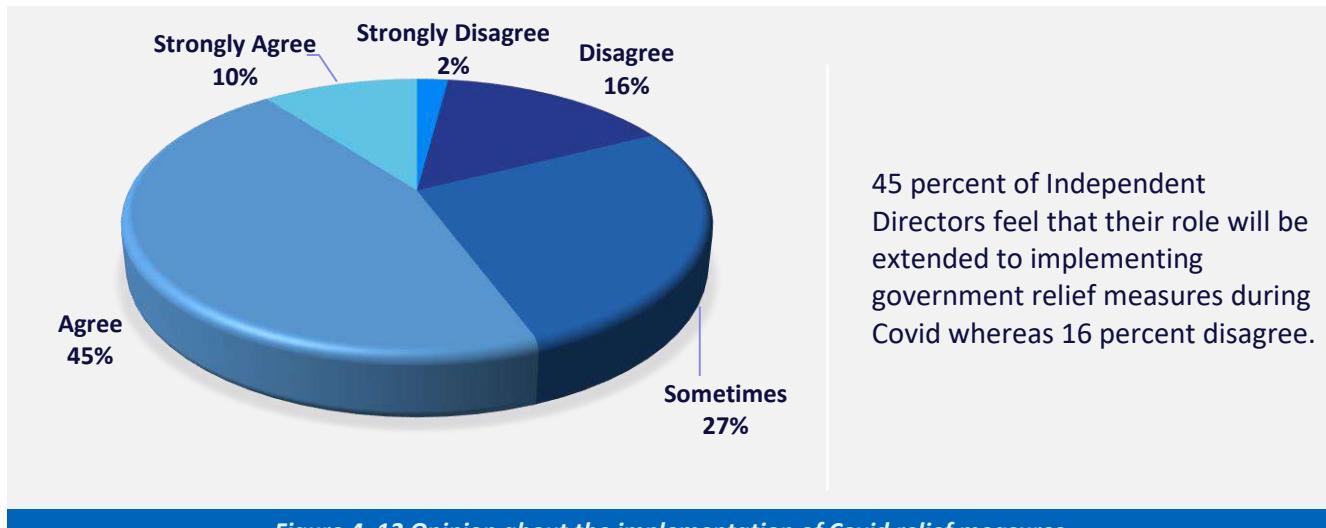
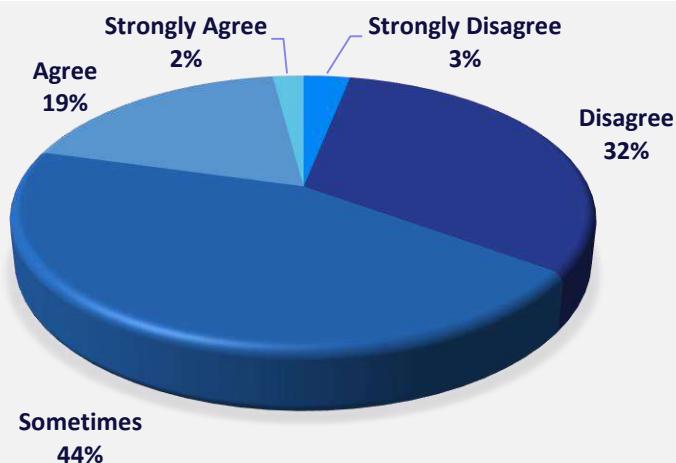


Figure 4. 12 Opinion about the implementation of Covid relief measures

Data Analysis and Interpretation

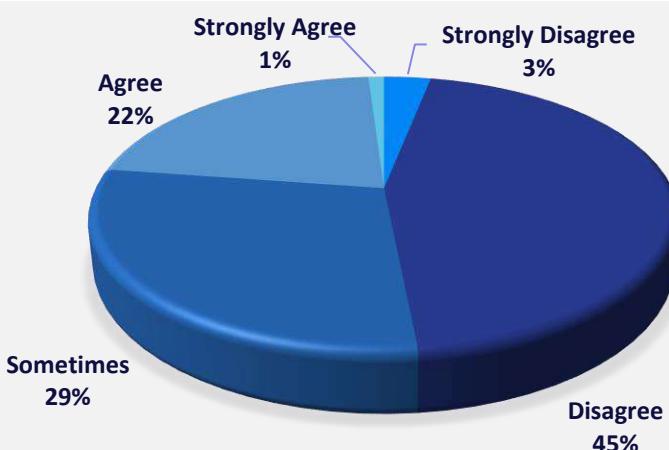
Difficulty in Meeting Contractual Obligations



32 percent of Independent Directors do not feel any difficulty meeting contractual obligations during Covid, while 19 percent feel it is difficult to do so.

Figure 4. 13 Opinion about the difficulty in meeting contractual obligations

Watch on Companies Treatment for Stakeholders



45 percent of Independent Directors do not feel any change in playing the role of watchdog for stakeholders.

Figure 4. 14 Opinion about the watch on companies treatment for stakeholders

Data Analysis and Interpretation

Role Change in Communication with Investors

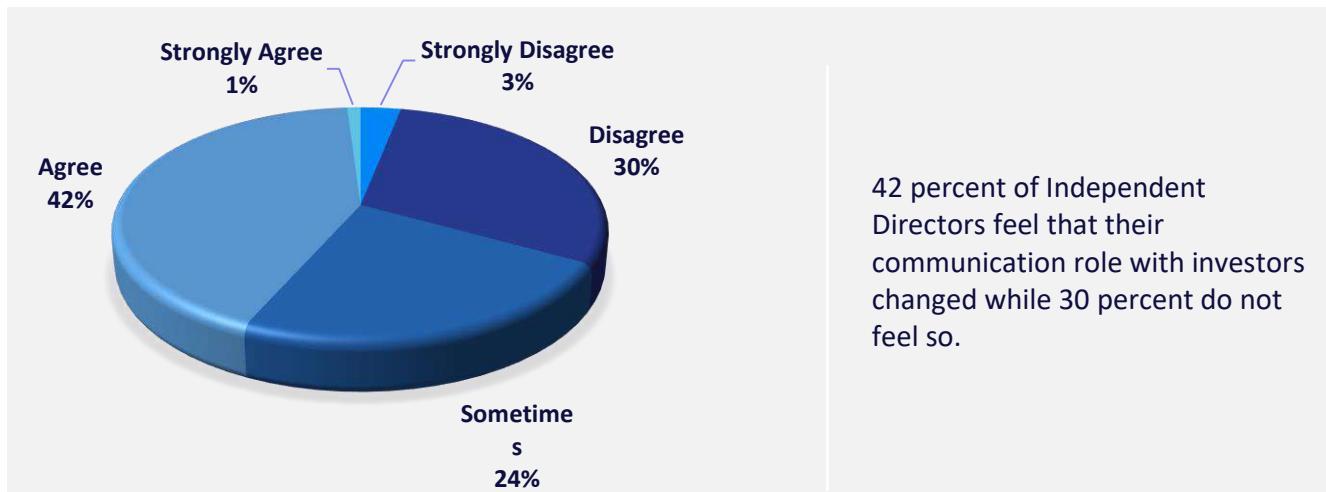


Figure 4. 15 Opinion about role change in communication with investors

Keeping a Vote on Employee Treatment

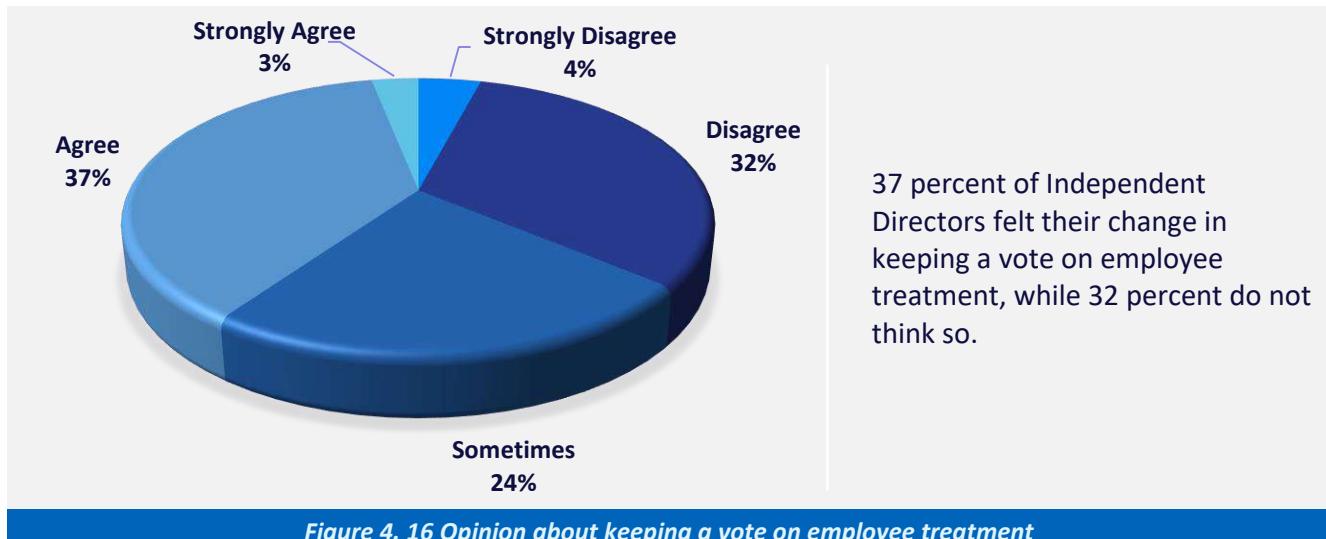


Figure 4. 16 Opinion about keeping a vote on employee treatment

Factor Analysis

Factor analysis is a tool for reducing data.

Factor Analysis Assumptions

- Variables used should be metric.
- Homogeneous sample: A sample should be homogenous. Reliability analysis is conducted to check the homogeneity between variables.
- In exploratory factor analysis, multivariate normality is not required.
- Correlation: At least 0.30 correlations are required between the research variables.
- There should be no outliers in the data.

By applying factor analysis on the recorded responses following table was prepared. Analysis of these tables is given below:

Table 4. 1 KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.849
Bartlett's Test of Sphericity	Approx. Chi-Square	607.330
	Df	91
	Sig.	.000

Source: Primary data

The KMO and Bartlett test is applied to check the sample size's adequacy for factor analysis and check if the factor analysis can be used to reduce the data. The acceptable value of KMO is greater than 0.5 for applying factor analysis. The present study value of KMO is 0.849 (shown in Table 4.1), considered excellent for going ahead.

Factor Analysis

Table 4. 2 Rotated Component Matrix

	Component			
	1	2	3	4
VAR00001			.738	
VAR00002			.843	
VAR00003				
VAR00004				.616
VAR00005	.787			
VAR00006	.816			
VAR00007	.810			
VAR00008	.820			
VAR00009				.610
VAR00010				.906
VAR00011		.747		
VAR00012		.665		
VAR00013		.703		
VAR00014		.640		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table 4.2 depicts that Factor 1 (General role change) includes S5-S8. Factor 2 (Financial role) includes the S11-S14 variable. Factor 3 (Compliance role) included S1- S2 variables Factor 4 (Corporate reputation role) includes the variable S4, S9-S10. Variable 3 dropped from the study because of having weak loadings (below 0.5).

Source: Primary data

The rotated component matrix is also called a Rotated Factor matrix in factor analysis. The researcher used the varimax method of rotation. Table 4.2 depicts the factor loading for each variable into each factor. Factor loading less than 0.6 is not shown in the table because the study neglected those loadings.

Factor Analysis

Table 4. 3 Mean Value of Factors

Constructs	Items	Loadings	Construct Reliability
F1	General role change		.883
	I feel a change in my role during Covid 19	.787	
	I feel companies expectations for my role has changed during-pandemic	.816	
	I feel deciding Covid is difficult	.810	
	I have started focusing on my role more than ever during Covid	.820	
F2	Financial role change		.775
	I feel my role in financial forecasting has changed during Covid	.747	
	I feel I will revisit the revenue streams in the company from a different angle during covid-19	.665	
	My role in monitoring working capital will change during Covid	.703	
	I will have a different look at cash commercialization measures after the pandemic	.640	
F3	Compliance role change		.742
	I feel a change in my compliance role during Covid	.738	
	I feel my role will be extended to the implementation of new government legislations during Covid	.843	
	I feel difficulty in meeting contractual obligations during Covid		
F4	Corporate reputation role change		.721
	I feel my role in having a watch on companies treatment for stakeholders will change during Covid	.616	
	ensuring communication with investors will be the changing role during Covid	.610	
	My role in keeping a vote on employee treatment will change during Covid	.906	

Source: Primary data

Table 4.3 shows the name of every factor and which variable comes under which factor with their scores. It can be seen that the average loading of each factor is more than 0.5, which is a good value, and also Cronbach's Alpha value of each factor is more than 0.6, which indicates that the constructs are reliable. These factors also collectively explain 69 per cent of the perception of independent directors' on board changed role during Covid-19.

Regression Analysis

Stepwise regression is based on some assumptions, and it is important to meet these assumptions for carrying out reliable analysis. The following required assumptions have been checked under this study:



REGRESSION ANALYSIS

- Assumption of linearity between independent variables and dependent variable: Scatter Plot has been used for checking linearity assumption.
- Multivariate normality: P-P plot and histogram has been used for testing normality assumptions.
- No multicollinearity between independent variables: as per the third assumption, there should be no multicollinearity between independent variables. This assumption has been checked by using the Variance Inflation Factor (VIF) value. VIF values below 10 states that there is no multicollinearity among variables (O'Brien, R., 2007).
- No-autocorrelation: There should be no-autocorrelation among variables. Durbin-Watson the test has been used for testing this assumption. Durbin- Watson value from 1 to 3 represents no autocorrelation between variables (Durbin and Watson, 1950).
- Assumption of homoscedasticity: Homoscedasticity assumption states that variance of error terms are similar across the values of independent variables. For checking this assumption, a plot among standardised residuals versus predicted values has been drawn. If data is heteroscedastic, then the scatter plot looks like a cone shape.

Regression Analysis

Table 4. 4 Step Wise regression results of perceived role change

Model	Coefficients ^a				
	B	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	.087	.246		.352	.726
Compliance role change	.968	.065	.877	15.008	.000
General role change	-.008	.070	-.006	-.109	.914
Financial role change	.009	.079	.006	.111	.912
Corporate reputation role change	.026	.068	.022	.381	.704

a. Dependent Variable: Role change

Source: Primary data

To test the most important perceived role change, an enter method of regression analysis was performed, as shown in Table 4.4. Perceived role change was taken as dependent variables. In contrast, Compliance role change, General role change, financial role change, and corporate reputation role change were independent variables. The higher value of the standardized coefficient beta depicts the most contributing factor. Here in our case value of standardized coefficients, beta is 0.877 for compliance role change, 0.006 for financial role change, 0.022 for corporate reputation role change, and -0.006 for a perceived role change.

Only compliance role is falling under the significance value less than 0.05; hence H02 is rejected, and all other null hypotheses are accepted.

Regression Analysis

Table 4. 5 ANOVA Result

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	69.232	4	17.308	85.597	.000b
Residual	18.603	92	.202		
Total	87.835	96			

*a. Dependent Variable: VAR00001
b. Predictors: (Constant), mean4, mean2, mean3, mean1*

Source: Primary data

From Table 4.5 it is clear that the p-value is less than 0.05 which shows the model is significant. Regression equation that shows the impact of perceived role change on the directors is Perceived role change= .087+ .968 (Compliance role) - .008 (financial role) + .026 (Corporate reputation) + .009 (general role)

Table 4. 6 Model Fit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.888a	.788	.779	.44967

a. Predictors: (Constant), mean4, mean2, mean3, mean1

Source: SPSS Output

As per table 4.6, the regression model explains 77 percent of independent directors' changed role on the Board during Covid-19.

Finding and Conclusion

The study's purpose was to identify the perception of changed roles of Independent Directors during Covid 19 and to study the impact of identified perceived role change. Keeping the observations and results of the analysis in mind, the major findings of the study are as follows:

1. The Independent Directors experienced four perceived role changes. These are:
 - Compliance role
 - General role
 - Financial role
 - Corporate reputation role
2. The compliance role was perceived to be the most important role changes experienced by the Independent Directors on board during Covid 19.



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