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Expert Expressions
Corporate Governance Demystified

Excellence Enablers Private Limited April|2019

"I wish I had known" is a thought that sometimes occurs in the minds of stakeholders. Having made common cause with a company in pursuit of its goals, they rightly believe that material information should not be withheld from them. How should this communication take place? We take a close and hard look.

Editor

TELLING IT LIKE IT IS

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When things go wrong, as they sometimes will, it is useful, even necessary, to ask a few questions. What went wrong? Who can fix it? How quickly can it be fixed? At least as important is to inform those that ought to know, that the problem has been identified, and setting it right is work-in-progress.

The Sarbanes-Oxley Act in the United States was a legislative response to a succession of corporate failures. Post the enactment, there was all-round criticism that it was a case of overkill with some provisions that would amount to throwing out the baby with the bathwater. In a contextual response, but one that should have universal application, a former Chairman of the Securities and Exchange Commission (SEC) asked the following questions – Did business know that something had gone wrong? If they did, what prevented them from attempting solutions? Since they seemed to do nothing at the company level, does it lie in their mouth to complain about legislative excesses?

India, especially in recent times, is witness to significant corporate entities coming to grief for a variety of company-specific reasons. The commonality in these cases is hard to miss. Communication has clearly been the missing piece, even as events played out.

At all times, especially in bad times, it is obligatory for senior management to communicate with all stakeholders. What passes for communication in many cases is a press statement, crafted by an external media advisor, seeking to explain away the negatives staring in one's face. Some of these releases are perfect examples of the statement that language was given to man to conceal his thought. Often they do not pass scrutiny with reference to any of the principles of communication.

But first the basics. Why should a corporate entity communicate? The answer is quite simple. Stakeholders, including, but not limited to, shareholders, have a right to know the situation in which a company is at present, and how it intends to address its problems. Keeping them in the dark, and hoping to communicate when issues have been sorted out, is an exercise in unbridled and unrealistic optimism. Since nature abhors a vacuum, the absence of factual statements will see the space occupied by conjectures and half-baked uninformed stories that pretend to be factual accounts. If facts are not shared, fiction and fantasy will occupy centre-stage.

It is equally important to determine what should be communicated. The need-to-know principle is the guidepost that must be scrupulously followed. Sharing of excessive details often tends to crowd out the information that is sought to be disseminated. Equally important is to determine who should share the information. It is an unfortunate but common practice in the corporate world, as also elsewhere, that good news is often shared with the outside world by the top management whereas bad news is put out by a relatively junior functionary, armed with nothing more than a press release that someone else might have crafted. Corporate chieftains must imbibe the quality that Professor Satish Dhawan amply illustrated by appearing before the media to explain a failed launch, and a few months later, pushing his subordinate Dr. Kalam forward to announce the success of the next launch.

Communication, if it is to be meaningful, must incorporate the following 5 principles:

- Communication must be **clear**. The objective should not be to obfuscate the truth.

- Communication should be **complete**. Incomplete information, by leaving out essential parts thereof, is worse than non-communication. The expression *"suppressio veri, suggestio falsi"* (to suppress the truth is to suggest falsehood) should always be borne in mind.
- Communication, needless to state, must be **correct**. Disseminating incorrect information is a dangerous game for corporates to play.
- Communication must be **concise**. Unnecessary verbiage will only help to obscure the central truth.
- Communication should be **contemporaneous**. The very best communication effort, after a considerable lapse of time, will be counterproductive since it will be interpreted as a response thought up in the face of a barrage of negative reports.

It is useful to test the communication exercises, or the absence thereof, in recent corporate history, to see how companies, that are perceived to be kosher, measured up.

A little over two years ago, corporate India witnessed one high profile involuntary exit. The communication to the exchanges was so cryptic that it raised more questions than it provided answers. Thereafter, the ousted Chairman had his version played out in the press with only brief isolated comments, reflective of the group view, coming from some Directors. It was many days later that the Group put out a detailed multi-page letter, explaining the Group's standpoint. Suffice it to say, it did not meet most, if not all, of the requirements indicated in the preceding paragraph.

In yet another high profile standoff between the founders and the Board, the communication, if it could be called that, was either through newspapers or through a law firm. What should have been a constructive conversation, got derailed into a combative confrontation. A result-oriented exchange would perhaps have been more productive, while providing less grist to the gossip mill.

In another high profile company, an adverse news item resulted in the company's issuing a notice of defamation to the author of the article. The company not only lost the case, but ended up paying compensation to the other party. It is useful to reflect on whether an engagement and an exchange of views would have yielded better results.

Premature communication is as problematic as delayed or inadequate communication. In a recent case, with allegations being levelled against a Chief Executive, the Chairman announced that the allegation was without basis and that the Board fully backed the Chief Executive. A few months later, the cookie crumbled, proving that being the first off the starting block, without getting facts verified, is not the brightest idea.

In a more recent high profile meltdown of a large group, there was no statement on behalf of the company. Only the Vice Chairman, in a freewheeling conversation, shed light on the allegations and, in his view, the lack of basis therefor. It is worth speculating whether the company ought to have taken the stakeholders into confidence when the problem first surfaced, with a clear communication strategy mentioning alternatives that were being addressed by the company.

There is also the case of a conglomerate accused of having facilitated a dishonest transaction. While inquiries have established that there was no evidence to point to culpability on the part of the company or any of its employees, the deafening silence from the company for a few days reinforced the erroneous perception that the company had not conducted itself properly. It is unclear why companies that have facts on their side, choose to remain silent in the light of seemingly specious allegations.

"Speech is silvern; silence is golden" goes the old saying. In a disclosure based regime, with stakeholders having a right to know, silence is, more often than not, an acknowledgment of wrongdoing. If the informed do not speak, the uninformed will step in with surmises and conjectures that can have disastrous effects.

Reform, perform, conform **and inform** is clearly the magic formula.

READERSPEAK - "Pit" falls and Potholes

Shankkar Aiyar, Political Economy Analyst
"Lovely piece. Particularly the pungent quote led opening."

Raghu Palat, Director on Boards
"Thank you. Most relevant."

Do let us know of any specific issues you would like to see addressed in subsequent issues.