Expert Expressions
Corporate Governance Demystified

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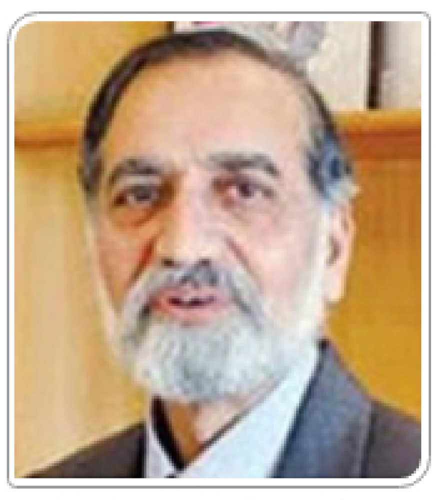
A series of interfaces with the entire range of stakeholders of Corporate Governance, has given rise to a number of questions, issues, concerns and, happily, some suggestions and solutions. In each issue of this monthly newsletter, we will be getting two experts to articulate their thoughts on a specific topic. The sixteenth issue is now with you. Needless to add, we welcome your feedback.

Editor

RISK MANAGEMENT – THE ELEPHANT IN THE ROOM

Odd as it may sound, to those who mistakenly equate risk with uncertainty, risk is a certainty. Only its nature, extent and impact are partially in the realm of the unknown. Identifying, anticipating, planning, deploying resources, and being in a state of readiness are non-negotiable requirements. The Boy Scouts motto got it right: "Be prepared". Kiran Karnik and Sunil Mehta opine on how to tame the elephant in the boardroom.

M. Damodaran
Chairperson, Excellence Enablers
Former Chairman, SEBI, UTI and IDBI



Kiran Karnik
Director, Central Board,
Reserve Bank of India
and Former President, Nasscom

Thirty billion dollars. In two days. That is the loss in market capitalisation suffered by the shareholders of Volkswagen in September 2015, because of falsification of engine emissions through manipulation of software by its employees.

In January 2009, the Chairman of Satyam Computers confessed to a fraud of about USD 2 billion, thereby also putting at risk the jobs of some 50,000 employees and the reputation of the Indian IT industry. The safeguard of financial audits clearly don't always work. In addition, there are now new or enlarged risks related to cyber security, intellectual property, reputation, information technology, disruptive innovations, and – for global companies – geo-political changes.

As a result, risk has now got overt recognition and been elevated for consideration in the Boardroom. However, from what ones sees and hears, Board deliberations on risk are generally perfunctory, and it is treated as one more routine compliance item requiring a tick in the box. Yet, risk, like a land-mine, is often buried and not immediately visible. But, when it explodes, it can cause extensive damage. Often, the danger zones are known, but despite proceeding cautiously, one can yet be surprised by the unexpected and the unknown.

This highlights the need for greater Board vigilance about risk, and putting in place appropriate systems and procedures which minimise risk. How many companies seriously maintain and update a comprehensive risk register? How much time does the Board spend in discussing it? Is it not time for regular Board-initiated third-party risk audits? Will this not possibly forestall a mandatory requirement? These are some questions Board Directors may want to ponder on, before their company steps on a land-mine.

Sunil Mehta
Chairman, Punjab National Bank,
Chairman & MD, SPM Capital Advisers
and Former Country Head & CEO, AIG India

The 2008 economic crisis demonstrated severe inadequacies amongst major global banks / companies, in preparedness to deal with major risks. While many steps have since been taken by regulators and corporate Boards to better prepare financial institutions and respective corporates to deal with unexpected events, regrettably the vulnerabilities continue to be very high across the Board. Many prominent and respected corporates in developed markets and India, continue to be mired in vexing issues resulting in huge reputational and financial loss for companies and their stakeholders.

Boards today have to be fully prepared for a diverse set of risks - fueled by unforeseeable global and domestic financial infirmities, capricious regulatory environment, hyper competition, fast changing market dynamics, intrusive media, environment protection activism, cyber security vulnerability and promoter management relations to name a few. As we have seen in recent months, reputational damage to companies and their boards, failing to preempt and proactively manage these risks, has been immense with incessant and unforgiving media tirade.

The questions we face – Are Boards fully prepared for the risk oversight role? Are they fully satisfied with the risk management policies design and implementation by company leadership? Is business strategy in line with risk appetite? Is risk culture and governance adequately institutionalized? Are there risk-related business processes which transparently highlight risk concentration? Is there lip-service to Enterprise Risk Management or is the Board adequately organized and appraised on risk impact estimation? What is the likelihood of potential risks, their estimated impact and appropriate preparedness to deal with consequences? Boards must recognize, and respond to, the elephant in the boardroom.

READERSPEAK - Extracting Value from Boards

"M. B. N. Rao, Former Chairman and Managing Director, Canara Bank"
"Excellent input to Independent Directors."

"Sumit Agrawal, Partner, Suvan Law Advisors"
"The piece 'Extracting Value from Boards' is compelling. Please keep enabling the excellence."

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