

# Acumen



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Association

**Ms. Ranjana Kumar**

Vigilance Commissioner,  
Central Vigilance Commission

**Mr. Rashesh Shah**

Chairman & CEO, Edelweiss Capital Ltd

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Dear Members,

Hope you enjoyed reading our earlier e-reviews titled 'Pearls of wisdom' and 'Insights' in which we brought to you speeches by some of the eminent awardees of various BMA awards.

In this issue titled 'Acumen', we bring to you the speeches of two more awardees.

Ms. Ranjana Kumar, Vigilance Commissioner, Central Vigilance Commission, in her speech has emphasized the importance of corporate governance, role of independent directors and the constructive role that promoter directors and independent directors can play together in building an ethical culture in the organization. Ms. Kumar is the recipient of BMA Management Woman Achiever of the Year Award.

Mr. Rashesh Shah, Chairman & CEO, Edelweiss Capital Ltd., in his speech unfolded the cornerstones of his entrepreneurial journey. In his own words, '.. Entrepreneurship boils down to five things - Ideas, Values, Resources, Asymmetric Payoffs and a little bit of Luck. All entrepreneurial endeavours are based on some of these - great entrepreneurial endeavours are built on all of these.' Mr. Shah has been bestowed upon the Entrepreneur of the Year award.

Happy reading!

**Best regards,**



**Abhijit Phadnis**

**Chairman, Editorial Board**

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#### **EDITORIAL BOARD**

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## **Women Achiever: Ethics & Governance – A Perspective**

It is a well known fact that management plays a vital role in shaping the future of any organization as the optimum utilization of all resources hinges upon the efficacy of the management. The core of a successful management lies in its Clarity of Vision, Plan of Action and more importantly Execution of the Plan of Action – the real gamut of operations as it were, and it is here that the importance of Corporate Governance and Ethics comes into being. Our Hon'ble Prime Minister, Dr. Manmohan Singh has said that whereas our policies and systems are good but the implementation needs much to be desired.

Organisations are managed by Policies, Guidelines and Systems. These are dynamic instruments, and therefore need to be reviewed from time to time to gauge their efficacy to the said organization. This review is all the more necessary when a lapse or an untoward incident takes place. It could happen that the review undertaken reveals that the said policy is very much sound and in place, however over a period of time wrong practices have come into being, and which are the reasons for the problems that have occurred, therefore corrective steps need to be taken forthwith.

A review could also reveal that the problems have occurred in spite of the policy in place, and which means that the policies would need to be modified or amended as the case may be in the best interest of the organization.

Normally, decisions are being taken within the framework of the policies and guidelines in place. Now, there could be critical situations wherein the policy in question would need to be slightly deviated from, in order to take the right decision, in the best interests of the organization. In such situations, a very clear and precise note

should be brought out giving the reasons which necessitated the said deviation from the policy. The said note should also contain the implications to the organization if the decision was not taken. This would serve as a very Transparent and an Objective analysis, bringing out the need for deviation from the policy on this “case specific” issue, whereas the said policy in principle would continue on an as is where is basis.

1. Experience has taught us that it is the Economic Downturn, as we witness world wide today, rather than Up Swing, which raises sharp focus on issues relating to Ethics & Corporate Governance.
2. The two Major Reasons for Corporate failures have been “Greed” and “Excess Leverage”. The moot point is whether these two need to be completely done away with? If so, what is the Incentive for Aggressive growth and competition? If not, how are these to be kept within controllable limits and yet higher growth achieved?

It is here that Business Ethics & Corporate Governance need to be focused on.

3. Whether it was abroad in the U.S. earlier, or more recent, and nearer home, it is seen that a “slip” in Corporate Governance is always initiated by the Promoters themselves.
4. Independent Directors are expected to be “Watch Dogs”. They can at best be accused either of ‘Lack of application of mind’ or of, consciously or otherwise overlooking the “slip” that has taken place. But not necessarily initiating the actual wrong doing, conspiracy, collusion or fraud as such. It has to be understood that they, the Independent Directors, cannot work as investigators as they are very much part of the decision making process in the Company.

5. Having said this, Each Member of the Board has a Key Role to play and an Important/Sacred Responsibility to deliver, and therefore they not get unduly overawed or paranoid by size of the Company or any extraneous situation that they are faced with. They need to bring their Special Expertise and Experience on Corporate issues to the Board, and always, to keep “Broad Stakeholder Interest” in mind.
6. They need to Set & Follow Policies pertaining to “Conflict of Interest”. All Directors must therefore be “above Board”.
7. They would be required to diligently & keenly watch the changes in Assets & Liabilities in the Balance Sheet, to ensure quick corrective action if needed.
8. The Board Agenda should be circulated well in time. Though this may appear to be an elementary and fundamental requirement, it is very significant, the Directors of the Board must have “sufficient time” to go through the papers and to apply their mind, and come duly prepared to the Board Meeting. The various issues deliberated upon, queries raised, clarifications given must be precisely minuted in a chronological manner.
9. Table Agenda to be only taken up on emergent issues and not be made into a routine affair. There must be adequate time for discussion of the Table Agenda to ensure an indepth deliberation.

So also for an agenda put up for Ratification to the Board. This also needs proper understanding and also as to why the decision needed to be taken by the company.

Questions to be raised when in Doubt by the Independent  
Directors.

10. It is extremely important to ensure Auditor Independence. The Audit firm assigned to the company should fulfill its mission in a Competent & Independent manner. Further, Effectiveness of Audit Committee of the Board is of Paramount Importance. It should exhibit the same in its functioning and should properly guide the Board.
11. It is vital that the Independent Directors understand the Impact and Consequences of the proposals they are clearing in the Board Meetings. They should not forget that they would be held responsible were things to go wrong and they should also remember that they have a right under the Company Law to put up a note of dissent (of course for valid reasons) as per their own judgment.

This does not mean that a 'Confrontation' is created between the Promoters and the Directors. In fact, both should clearly put forth their point of view backed by facts and supportive data. They need to deal with adequate Patience. After all, the Promoters have got the Independent Directors on Board to 'add value' and to contribute with their distinct individual expertise and experience.

The goals of the Promoters and Directors being the "Long Term Sustainable Well Being" of the Company, why should there be friction of any kind?

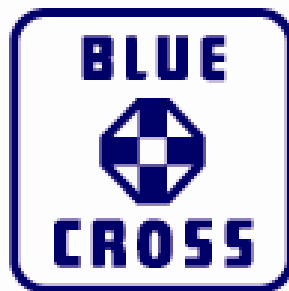
Of late, since January 2009, we have been hearing that some Independent Directors have chosen to resign. This is certainly not a healthy trend and should be discouraged.

12. Finally, Board Members must embrace Corporate Ethics by creating a climate of Integrity and Responsibility within the company, expressed in both the written code and by living example i.e. both Directors & Promoters need to come together to Build a strong Ethical Culture for the Company, that would ensure Correct Behaviour/ the Right Behaviour, when policies are either unwritten, unclear or are unenforced.
  
13. “Ethics & Corporate Governance” are not just Moral or Compliance Issues. In the long term they are Essential Behavioural Traits for the Organization, that strengthen the Organization’s “Brand Equity” and help ensure Stable Sustainable Growth.

Finally, the world over people have been talking about “Self Regulation” being an Integral part of Corporate Governance stating that it has to come from within. But of late, experience has shown that this has not really worked, so people are now talking of Rule Based Regulations i.e. need to be more specific, where Dos & Don’ts are specified.

Which of the two should we follow?

Well it is for the individual company to decide.



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## **Entrepreneurship - My Experience and Learnings.. Rashesh Shah**

Dear Dr Ganguly, Mr Mohan, distinguished panel members, Other honourable recipients of the Awards, Ladies and Gentlemen.

I sincerely thank BMA and the awards jury for bestowing this honour upon me. I feel both proud and humble while accepting this honour. And especially because this comes from BMA, one of the oldest associations in the field of management. From what I can recall, BMA was established in 1954 – possibly even before the concept of "Management" was formally born in India!

I want to share my experiences in entrepreneurship, from two very important sources. I have been fortunate that the journey of Edelweiss has provided me with lots of experiences on entrepreneurship. Plus having worked with many companies in India, I have been able to see and experience entrepreneurship in *and through* many individuals and companies. These are the experiences I want to share with you.

We have been very fortunate in India to be in what I consider the golden age of Entrepreneurship. Though India has always been 'entrepreneur- rich', Since the 80's, entrepreneurship has become more accessible and more rewarding.

For me, Entrepreneurship boils down to five things – Ideas, Values, Resources, Asymmetric Payoffs and a little bit of Luck.

All entrepreneurial endeavours are based on *some of these* – great entrepreneurial endeavours are built on *all of these*.

**Ideas** - It all starts with Ideas. Ideas are the dreams, the aspirations, the emerging market opportunities that one sees. Though Ideas change as markets change, and as opportunities change - most entrepreneurs manage to keep the core idea intact while the outside colors keep changing.

Ideas are often vague – good entrepreneurs give them definition. Ideas are usually basic concepts that can be explained in two or three sentences or even with images.

I remember when we started Edelweiss; the idea was that as the economy liberalizes and evolves, capital markets will become a significant channel for routing funds from providers of capital to users of capital. In India, the banking sector was this conduit until the 80s; now capital markets have become a growing alternative. We actually used to draw one large bridge (on which capital would move from providers to users) with many lanes and call this Banking – and then used to draw one small single lane bridge and call this capital markets. Our idea was that this **single lane bridge will soon become a multi-lane expressway. This was the idea.**

Ideas also evolve. When we started we thought if we were wildly successful, we would have 100 employees and maybe Rs. 100 crores of equity capital (we started with a capital of a crore). Today we have 1300 employees and Rs 2500 crores of capital. And we are much smaller than what we want to be!

However, ideas alone are not enough. These have to be accompanied with Values. Values - is obviously a high flying clichéd word, but to me **values essentially means clarity about what can and cannot be done. Values set the boundaries.** Without boundaries, organisations flounder and the anchor or compass is lost. **If ideas are the accelerator, then values are the brakes.** A good car needs both in excellent working conditions.

When we started Edelweiss, we were advised (by someone we respected a lot) to put down our value principles. Though we did not see much meaning into this at the time, out of respect we worked hard and put down what we call our Guiding Principles for Business. These have become more and more valuable as the organisation has grown. At Edelweiss, the Guiding Principles for Business is like the 'preamble to the constitution' and these have added more value to us than we ever imagined 13 years ago.

After Values come Resources – **because without resources, ideas cannot be executed.** We all know that the key resources for any organisation are mainly people and capital. All other resources follow. Some may argue that technology, natural resources, patents, brand names etc. are also resources but I feel these can be acquired if you have the people and capital. Without the right quality and the right amount of these 2 key resources, there can be no execution of ideas.

Of the two, I have found that people will attract capital (fortunately we live in a world of easier access to capital).

At Edelweiss, we have considered people as the most important resource – and have worked hard to convert these into a strategic advantage. E.g. We kept aside 10% of our original equity for future partners and employees and we distributed this initial promoters' equity until 2003 - 7 years after we started! We also insist that senior managers spend between 20-25% of their time on 'people related issues'.

On the capital front, we have always veered towards being more than adequately capitalized and being very very conservative in our use of capital. Respect for these two core resources is the foundation of our organisation.

Then comes Asymmetric Payoffs. Successful entrepreneurs understand this intuitively. They **capitalize a lot more on the upside than what they lose on the downside**. I like to call this **asymmetric payoff**. When entrepreneurs find the right opportunity at the right time – they make the most of it. Most entrepreneurs are optimistic; they know that the upside of good times is much higher than the downside of bad times. This asymmetry comes out of an inherent belief in the future.

There is a slogan in Silicon Valley – the Mecca of entrepreneurship; it is **‘Fail Often, Fail Small and Fail Fast’**, because there are always other opportunities with bigger upsides. Good entrepreneurs do not let the misses bog them down; they focus on **the hits**. They get a lot more out of things that work out well. And they keep the cost of failure – both emotional and financial – under control.

And – after all this, all entrepreneurs need a little bit of luck! This is that indefinable thing – right time, right place etc. But usually good fortune is **correlated to effort**. And to time. Long run works for all entrepreneurs.

**As Woody Allen said – A large part of Luck is showing up.** All entrepreneurs understand the need to keep showing up.

Lastly, all journeys such as Edelweiss are never alone. And speaking of Luck, I have been lucky to have 2 great partners in this journey;(1) Vidya, my wife

Who has been a tremendous source of support and encouragement for Edelweiss over the years and (2) My friend and cofounder of Edelweiss; Venkat Ramaswamy who has smilingly gone through the ups and downs of this journey. Alongwith this, there are many whose fingerprints are on the Edelweiss story. Everyone in Edelweiss has contributed to this. This award is for all of them.

Once again, thank you for the award and I shall always cherish this honour.