



Comment/ Insight

The IMF pegs India's growth at 8.75% in 2010. As the Indian economy booms, so do soft local risks to reputation and capital. Local partners, senior management, agents or local advisors may import hidden risks that flow from their personal standing, reputation, cultural leanings, community and political affiliations and previous conduct re western partners. Two such areas of risk are:

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[Remote Control & Local Management](#)

Local Indians can be proud, professionally competent and transparent as mist, depending on personal agenda. Reluctance to bear bad news, exaggeration of good news or outright concealment, come easily and are usually culturally 'acceptable' – especially when it involves "foreigners", i.e., information flow to from local senior managers to the western parent management overseas. This is founded in loyalty to the 'Indian group', due to cultural pressure, the severity of the great Indian hierarchy, and few could break rank easily - posing a great challenge to the western parent in effectively controlling and managing local managers.

Western companies can take two crucial steps: (1) to conduct a discreet soft investigation into the reputation, track-record and past dealings of any proposed and especially senior local recruit, and (2) to put into place a discreet, even covert, mechanism, independent of its local company or team, to monitor and flash some early warning of in-country soft risks that may lurk unknown to the western parent.

[Head-Hunter Cliques](#)

Know your local Advisor! We wrote of this in the February edition of India Diligence Brief.

The rule applies with all its vigour to the local head-hunting community. In high impact and high value assignments involving senior-most local appointments, a single biggest risk in an Indian venture lies in landing the wrong Indian CEO or CFO – no matter how highly skilled and competent. In several past issue of India Diligence Brief we highlighted the catalogue of soft risks confronting any western company's reputation and assets in India – mostly from wrong people choices: the perennial problems of 'subtle manipulation', 'undisclosed' promises', unsuitable 'affiliations', 'financial bleed', and the like.

In many cases, secret allegiances between candidates, pivotal Indian head-hunters and reference-providers – in the so-called inner circles - mask the true implications of a happy recruitment. Community affiliations can quite often override professional duties and short-termism is again a cultural issue. Depending on industry sector, 'head-hunter cliques' can saddle a company with a senior country representative(s) fraught with yet-undiscovered operational and reputational risks flowing from past-affiliations, propensity for secret 'deal-making', and all the wrong sort of political affiliations.

This problem cannot be side-stepped by engaging western firms who have set up shop in India; most must depend on employing senior Indian head-hunters with the "clout". The only mitigation is through taking a hands-on role in selection, and doubling up with discreet and even covert integrity, reputational and affiliations checks on candidates – confidential even from the head-hunter if needed.

[NEXT ISSUE: “Partnering Decisions & Anxiety” and “Litigation - A Tactical Game”](#)

Risk & Due Diligence

[Postmaster General Held for Corruption](#)

The Indian CBI has nabbed the Maharashtra and Goa chief Postmaster General for accepting bribes of Rs 2 Crore (about £250000) for granting permission to a builder to develop land in Mumbai belonging to the Indian Post Office.

[Employee Embezzlement](#)

It appears that embezzlement by employees is seen to be a common phenomenon among Indian companies. IT major Wipro has mandated Ernst & Young to institute a high-level internal probe to verify audited accounts. Lax controls are typically the reason for such frauds. Recently, a Wipro employee allegedly embezzled \$4 million – a sum considered to be relatively ordinary in such frauds.

[Big Four Audit firms Bending Laws in India](#)

The Indian press reports that the Big Four audit firms, according to the Indian accounting and auditing regulator ICAI, are circumventing the laws while providing auditing services in India. The firms are using permission granted for consultancy work to carry out other services that are not permitted.

[CAG Report Criticizes Procurement of Low-Floor Buses by Delhi government](#)

India's Comptroller and Auditor General (CAG) investigated the procurement of low-floor buses by the Delhi government. Its findings allege that the buses were procured at unjustified prices and then unnecessary feature installed at high cost. Proper consultation with technical bodies was ignored. For example the 3156 AC and non-AC buses procured for Delhi in 2008-09 are unsuitable for plying on “uneven and harsher terrains”.

Business Creation

[Defence Minister Empowered to Clear Defence Projects up to Rs 1000 Crores \(£150 million\)](#)

India's Finance Ministry has sought to counter delays in India's vital defence procurement needs. The Defence Minister can now clear projects not exceeding Rs 1000 Crores, bypassing the Cabinet Committee on Security (CCS). In the 2010-11 budget, the Defence Ministry had to return nearly Rs 7000 crores unutilised to the Consolidated Fund of India.

[UK Rail Companies Delegation Eyes Indian Railway](#)

In March, a railway delegation of 10 UK companies visited India pitching to investigate opportunities for JVs and PPPs with the Indian Railways in manufacturing and services. In December 2009 and later in the Rail Budget 2010-11, the government announced its plans to step up private investment in railway infrastructure and services. Indian Railways are under pressure as air and road sectors have raced ahead. The Indian Railways budget is only second to the Defence budget.

[Kone to Step up India Presence](#)

Kone, the €4.7 billion global elevator and escalator which has a strong local presence in India plans to step up its market penetration in India. It is planning to install destination-controlled software systems to optimise traffic and waiting times. The rapid urbanisation and changing facade of buildings in India has created new opportunities for its business

[ITT to Supply Indian Military Equipment](#)

The New-York based ITT Defence International Inc, arm of ITT Corporation, is in talks with potential Indian partners to supply night vision glasses and battlefield management systems to the Indian army. It recently opened a liaison office in India and intends to co-produce equipment in India with local private and government partners.

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