KCS Group Europe

Executive Orders: It's corporate life, but not as we know it

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The second in a series of posts looking at the specific duties, problems and responsibilities of corporate executives continues to examine new horizons, but from a different perspective to before: this time, examining the complex world of partnerships, joint ventures, agents, and distribution – where the parent company itself does not decamp *en masse* to the new market but uses local partners (whether firms or individuals) to create an enhanced collective footprint. Not only can such ventures carry inherent risks of their own, they act as object tests of an executive's character: are they willing to cede power in a key area, and can every aspect of the plan be considered for the good of the company, rather than for the good of their ego?

The advantages of setting up a joint venture, or working through local agents, are clear, a company can reap the benefits of a permanent stock of local knowledge and experience, while lessening its own absolute exposure should things go wrong. A full-on joint venture can be relatively involved, covering a specific piece of jointly-run infrastructure or a particular project. Or it can be more arms-length, an agent relationship whereupon the local partner takes on the primary responsibilities under the overall guidance of the parent company. Unavoidable in any such case are two facts: one, that it is still the name and reputation of this firm on the line, and two, that while affairs may be conducted locally, it is the executive who may (or should) rise or fall depending on the quality of the decision.

Clearly, there are problems to the 'local approach'. A joint venture with a firm well-established in the market could be contentious for multiple reasons; the firm in question could have a hitherto-unknown poor reputation or criminal history that it has tried to hide or be a 'front' for ultimate criminal or politically-sanctioned interests. On the other hand, working through a single agent or distributor risks, if that person is servant of many masters – or has an agenda all of their own – then the Client company could find itself all at sea without the immediate capabilities, or knowledge, on how to restore a situation that could be on the other side of the world from their own expertise, and without the ability to fix it.

The role of an executive is clear, not just in picking the right market for the right reasons (as was discussed in the previous paper) but ensuring that the right relationship with the right people is established. Handing everything over to a third-party whom the executive does not know at all (or knows too well, offering the role despite patent unsuitability) or establishing a partnership with a firm whose bona fides have not been adequately established, because they either do not know the risks or do not care about them, is a recipe for disaster. It is in part a systemic problem, as an organisation might not have the capabilities to adequately identify the full range of risks related to what they intend to do, but more frequently, it is an abdication of responsibility at the highest levels that actively compounds the problem.

One client operated local partnerships in four separate continents, operating predominantly through local agents who were given almost total responsibility for what went on in their regions. All turned out to be suspect in some degree. Whether this be the representative individual who was accepting 'bids' from multiple industrial companies and simply giving the contract/connection to the highest in direct contravention of his deal, or the individual who on the surface claimed a large network of contacts but of whom it was determined had used friends & family to bolster his reputation undeservedly. Alternatively, thirty layers of shell companies in Iran needed to be peeled back to identify that the ultimate beneficial owner of a prospective joint venture firm was a key member of the Revolutionary Guard – and the CEO's first response was not horror at how close his company had come to sanctions-breaking, but irritation that the investigation to confirm this had taken too long for his liking.

These are alien environments, and executives must take responsibility for accepting that differences in culture and procedure must be understood, and that a balance needs to be struck between independence for those 'on the ground' and oversight by those back at headquarters. Too much leeway, and you fall prey to all manner of corrupt and damaging entities. Too little, and you suffocate the local experts whose job, after all, it is to help you do yours better. Above all, executives need to remember that everything – whether good or bad – will reflect on them, and act accordingly. Anything else would be considered highly illogical.

Next week, 'Executive Orders' concludes with a look at how the systems underpinning company activity in all regards can lead to failure and examining how CEOs can not only exacerbate these but be a causal factor.

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