

Enterprise Risk Management and Corporate Governance

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Questions

1. What is your assessment of the situation at Chessfield?

The situation at Chessfield is at a very terrible and poor stage. The state of governance by the Board of Directors and the company's CEO is very poor and does not follow the governance regulations. The company is led by an outspoken and successful CEO and a blue-chip board of directors. On the board, there are directors who have been on the board for over 20 years. There is a director who has stayed on the board for twenty-eight years, another director who has stayed for twenty-four years, and the shortest-serving director who has already served for seven years. Decisions and governance in the board were informal and almost always by consensus. The size of the board was ten members, it had three committees that were all composed of independent directors. On the board, there was no female that led the directorship seat.

The governance documentation at Chessfield was very minimal. The board did not have guidelines, committees did not have charters, and the position descriptions for board leadership roles, directors and the CEO did not exist. The meeting agendas and minutes were very sparse, with the average meeting agenda being one page with key headings only (Archer-Brown, 2018). There were no documented, board-approved strategic plans or risk appetite framework, and many material risks were not reported to the board at all.

The directors and the staff at the company were interviewed by the author. It was found that many non-compensation committee directors neither knew nor approved what or how the CEO of the company was paid. This is so frustrating and terrifying to see that the directors are not aware of something like this that is crucial and sensitive. The internal auditor was junior, inexperienced and unqualified. The auditor committee members did not possess adequate financial literacy or relevant qualifications. The committee chair rarely attended meetings in person for health reasons and did not possess compensation expertise.

On the issue of the CEO compensation, the author was not provided with the CEO's goals and objectives, key performance indicators and target requirements for short-term or long-term incentives to be awarded. The foregoing items were asked for but, to the author's knowledge, did not exist. The compensation committee chair had friendship and social relationships with a number of directors, including the CEO.

According to the risk management issue. There were very few explicit risk management protocols or systems to identify and mitigate material risk, including operational risk in particular. In the cash room, the controls were all manual, as no information technology was used, like laptops or tablets. Risk identification and assessment were not documented explicitly. There was no risk function reporting directly to the board. Most of the directors appeared blindingly ignorant of their obligation to oversee risk management.

2. What recommendations would you provide to the regulator?

I would recommend to the regulator several issues that include: Every company's board of directors should observe the quarter gender rule, which entails that members of the board of directors should have both male and female directors, one gender group should not have more than seventy-five percent of the total number of the members of the board. This will facilitate the participation of both genders, especially the female gender, who are discredited by leadership. This will help the companies to have both male and female leadership skills and help in decision-making that will be discussed, assessed and approved by every personnel.

I would recommend the regulator to make a law that will give a limit of years that directors are supposed to spend in the board of directors of the company. I would recommend him to make a limit of nine years of service. This will guard against entrenchment and compromising of independence over time. It will also create a room for new, competent and fresh directors to the place of leadership and be able to bring new ideas and improve on the leadership skills of the company.

I would also recommend the regulator that the boards of directors of companies should at least have one Annual General Meeting that would involve the regulators and the law enforcers so that they are aware of the situation of the company and how it is progressing, and if it is following the laws being made. This will increase the seriousness of the company and focus on quality deliverance of their services.

I would also recommend the regulator force the companies to move to the digital technology way of service, where the company's board of directors should have laptops and tablets when they go to their board meeting and be able to participate in the discussions of the meeting. Companies should install the technology way of save data and keep information. In the cash room, there should be no transfer, deposit or withdrawal of cash money; instead, they should use checks or bank services where clients should only deposit in the company's bank account instead of direct depositing to the company's offices. This will reduce any fraud that might be committed within the company.

3. What is your opinion of the governance regulation of Chessfield? In what ways should governance regulation improve, given the

above?

The Chessfield governance does not embrace the female leadership. The board consists of ten board members, and they are all male. This is also evident when the author recommended a woman to be added to the board, and one of the board members suggested that perhaps they have a lady in a wheelchair who is a lesbian (Sweeting, 2017). This shows that they do not value the women and their knowledge and skills. This makes the male directors reluctant to commit to their board meetings.

The Company employs unqualified and inexperienced employees. The company employed an internal auditor who was junior, inexperienced and unqualified, had operational and revenue generation responsibilities and had little exposure to it. Also, the audit committee members did not possess adequate financial literacy. This shows that the company's staff are not serious and observant during the employment interviews.

The governance of Chessfield should uphold the female leadership skills by involving the female to be part of the board of directors. The company has to employ several women on the board of members and also in the directorship position. They should seek competent, reliable and hardworking females who are ready to work as directors and members of the board of directors. This will help the board members to be fully committed to their meetings and observe the required regulations.

The company has to make prior and proper arrangements during their employment interviews; they also have to seek the required skills and knowledge according to the positions that they are looking for and choose competent, reliable and hardworking employees who have experience in their fields of work. The company has to make laws that will govern the working conduct of their employees and the laws should be followed strictly.

4. What are the learnings and broader implications of this case?

Lastly, this case teaches lots of things about good and bad leadership within the company especially at the board meeting level. It shows lots of mistakes that the board of directors in Chessfield portrays and the outcomes that are caused due to the mistakes. The board is composed of ten members where all of them are male, this causes a poor attendance of the directors in their board meetings and they are less serious about their meetings, where you also find that there are no technology devices like laptops or tablets being used.

Corruption is evidently in the company where unqualified and inexperienced employees are being employed; the company employed an internal auditor who was unqualified and inexperienced he had little exposure to operational and revenue generation responsibilities.

The company's position descriptions for board leadership roles, directors and the CEO did not exist; this shows that they are not serious about their company's structuring and planning. Meeting agendas and minutes were very sparse, with the average meeting agenda being one page key heading only,

this also shows the company has poor arrangements and they are less serious about their meetings.

Lastly, in the cash room, the controls were all done manually as there were no information technology devices like laptops, which made the work difficult, tiresome and inconvenient when you wanted to retrieve some data from it.

1. How does Ray's strategic objective translate to the operational level, that is? What is his key operational objective(s) for the wholesale business line?

His key operational objectives for the wholesale business line include targeting a goal of tripling the profits of his wholesale business in the next three years, which will be accomplished by increasing his supplying territory to a larger one by expanding to a hundred and twenty kilometers radius, to wholesale to local restaurants and new business line, and white label products that he can supply to major supermarkets chains. Ray also hired a full-time vice president of sales and marketing to take over him and concentrate on the wholesale business. Ray leased a separate baking facility to be primarily dedicated to supplying the wholesale business. He also purchased a second previously owned delivery truck and hired a full-time distribution manager.

2. What performance drivers, that is, the internal capabilities (e.g., people, processes, and systems) and external factors need to be present to achieve operational success?

The performance drivers that need to be present to achieve operational success include a high demand for the products by the people purchasing the product, which will increase the manufacturing and production and also the supply of the product to the consumer. Adequate availability of the raw materials for the production of the product will maintain the flow of manufacture and supply of the product to the consumer. Availability of efficient and reliable working machines, it is important to have machines that are efficient and reliable to maintain the production of the product and never to reduce the supply amount due to machine breakdown (Walker,2017). The people working in the production and supply units need to be competent and very hardworking so as to provide quality services.

3. What are the risk factors that drive the uncertainty around achieving operational objectives?

Risk factors that drive the uncertainty around achieving operational objectives: Implementation of a law regulation is a risk upon achieving the operational objectives of a company. This is crucial in that the law may affect the production and usage of a certain commodity by the consumer, and this will

tend to reduce the supply amount of product, thus leading to poor performance.

Innovation is another risk factor that may have a big impact on a company. The rise of new ideas of production and manufacturing, or also supplying, may impact the company negatively. The company may not be ready to implement and set up the new idea, and this may lead to poor performance since the company is in competition with other companies.

Demand uncertainty. This refers to the probabilistic maturity of demand quantity, types, timing and location. The demand uncertainty may put a company at a big risk since you are unaware of the demand levels of the product by the buyers.

Process uncertainty. Process uncertainty is related to the probabilistic nature of machine availability. Process uncertainty is a risk factor for a company since the machines are the items that are used in the manufacturing of the goods that they are selling.

4. Which risk drivers are most likely to impact operational objectives?

The acceptance of the commodity by the people or the users is a risk driver that may affect the operational objective of the company. The level of acceptance of the product will determine the level of operational objective to be performed.

The amount of raw material of the product that is available. This will affect the operational objective to be done since it will control the supply amount of the product to the consumers. Large amounts of raw material will create room for large amounts of production of the product being manufactured.

The availability of towns, urban centers and shopping centers. The shopping and urban centers will create a market for sell of the product to the consumers since most of the goods are usually sold in the urban centers rather than the rural.

5. How large of an impact might those key risk factors have? Hint: Use scenario analysis to explore the full range of potential outcomes.

Demand uncertainty is one of the risk factors that may impact the company. Demand uncertainty is the situation where you are not sure of the demand level of the product at a certain period of time. The manufacturer may manufacture large amounts of the product and then supply it to the market, unaware he realizes that the demand is very low and he had manufactured large amounts of the product; this will cause a loss to the products that he had manufactured and also vice versa, where a manufacturer manufactures less amount of the goods because of the unawareness of the demand levels, but later on he realizes that the commodity had higher demands.

Price actuations. This is a crucial risk for a company. The rise and fall of the price of commodities may affect the company's level of production and delivery. For example, during the low prices, the company is greatly affected and tends to feel that they will not make the profits that they were expecting. The low prices of the commodities will raise the demand for the product, but the company will tend not to manufacture more products because they are offered low prices, and this, indeed, reduces the operational level of the company.

Law implementation. Implementation of laws will greatly affect the productivity of a company and its goods. The government may pass a bill that will affect directly or indirectly the production of a product. The implementation of a law upon usage of a certain product will reduce its production rate. Supply rate and consumable rate may also lead to the total close of use of the product. Hence, the implementation of a law upon a certain good may cause a close to the company since they will not be given the license to trade their products.

6. Based on your analysis, what are the “significant few” factors on which Ray should focus his attention to manage the operational risks associated with the new facility?

The significant factors that Ray should focus his attention to managing the operational risk associated with the new facility. Ray should focus on his machines and maintain their efficiency. Ray should pay good attention to his machines by hiring a mechanical engineer who will maintain and repair the baking machines. This is because the machines might break down and fail to function, and hence, it will cause a stop to the production of the good and its supply. Thus, the company should have a person who will take care of the machines and maintain them to enhance a good flow of production of the goods.

Ray should make sure that everything that he is working with including the vehicles and the machines, are all licensed or are given approval by the government. This is to prevent any ban on the things that are working, like the machines, because it will stop the production of his goods and it will now lead to a lack of supply of his goods to the restaurants. Thus, the restaurant owners will tend to pick another distributor.

Ray should also pay attention to the level of demand of his wholesale buyers and retail buyers. This will help him to manufacture the correct amount of his goods, which are perishable, and to prevent any loss of the goods.

7. What underlying assumptions underpin your analysis and conclusions?

My underlying assumptions are that the company is within the urban and is facing various demand

levels and uncertainty. The company is within the jurisdiction of a government that enforces laws strongly and is concerned and watches out if the law regulations are followed by the companies. Ray's company contains items that require maintenance and attention. Ray's company is a large company that has grown and developed to an operational level that requires prior management.

Reference

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