Investment Interviews - Did They Just Say That?

Our Beyond the Surface: In-Depth Risk Assessment for Serious Investors provides a toolkit for asking the right questions of PortCo leadership teams. This tool provides some real-life examples. We've picked out a cross-section that reveals potential risks. Hopefully, they will help you ask the right questions or sniff out areas to dig deeper.

ZERO TOLERANCE JAIL TIME

Us: How do you manage demands for small bribes from port officials? [*This is a presumptive question; we knew this was a common challenge in this location.*]
CEO: That's not an issue we ever have to deal with.
Us: Ever? [*Use mirroring language when you can*].
CEO: No.
COO: Well, we have had to deal with this.
CEO: When!?
COO: When I was detained and put in a cell for a day for not paying.
CEO: What!? Why didn't you say anything?
COO: You didn't notice I was gone, so it didn't seem worth raising.

Lesson: The founder (team) may not know what's happening in their business, especially around risk management. Get insights from across the organisation.

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www.ethicsinsight.co
hello@ethicsinsight.co

THE SILENT SPEAK-UP FRAMEWORK

Us: Please describe how your speak-up framework works.
CEO: My door is always open. We are like a family here; anyone with a concern can talk to me about it.
Us: When did someone last come to you?
CEO: Seven years ago. It was some harassment thing, but it was not very serious.

Lesson: No news isn't good news. If people aren't telling you about problems, you probably have more issues than imagined.

CONFLICT CHECKS BY GUESSTIMATION

Us: How do you manage the conflict of interest exposure? [*Again, this is a presumptive question, as this was a management team comprised of connected local families who controlled numerous other business interests*].
CEO: We know everything about each other's family and relations and would automatically be aware of anything like that.
Us: Does that include side businesses? [*Our due diligence highlighted some corporate interests that the investee hadn't disclosed during legal due diligence*.]
CEO: At the moment, most employees don't have side hustles.
Us: Most?
CEO: Well, I think most wouldn't do such things.

Lesson: We went from knowing everything to relying on assumptions about what "most" may or may not be doing. What gets measured (or disclosed in this case) gets managed.

THERE'S A HACK FOR THAT

Us: The new regulation requires that doctors practice telemedicine from a registered medical facility. How did you acquire that authorisation and the associated licenses?
CEO: We moved the doctors to a warehouse and designated it as a healthcare facility.
Us: Designated it?
CEO: Yes, we filed the necessary documents.
Us: Have the authorities been in touch with you since?
CEO: No.
Us: Healthcare facilities require routine inspections by the ministry, don't they?
CEO: Do they?

Lesson: Know the process, especially when dealing with fickle enforcers (the government introduced the new regulation because it realised it'd lost sight of doctors practising telemedicine from unlicensed and unmonitored venues).

FRAUD? US? NEVER!

Us: Your HR manual is detailed and covers many areas, including daily register reconciliations and cash collection. Have you ever experienced theft or misreporting issues?
CEO: No, never.
Us: The policy is so detailed that it even specifies that cash counting needs to be done within a direct sight of the store CCTV. That's some excellent security and fraud risk awareness.
CEO: Yes, we came up with this.
Us: Amazing! Have you had previous experience managing fraud or security issues?
CEO: Yes.
Us: When was that?
CEO: When we had some small robber… [*stopping sentence, revealing that "never" doesn't always mean never*].

Lesson: We can be terrified of admitting past mistakes, even if the learning that came from them makes us better. We must explain that this due diligence is about building resilience (including learning from mistakes).

OUT OF SIGHT, OUT OF MIND

Us: We understand that the EPC and O&M contractors manage many day-to-day interactions with officials. How do you maintain oversight of those interactions?
COO: We have people on-site, and they make sure the contractors are not doing any funny business.
Us: Are these people on-site tasked with constantly monitoring the contractors?
COO: Well, no. But they're there with them most of the time.
Us: Most of the time?
COO: Oh, wait, I see your point. We don't know what they're doing sometimes… [*proceeds to open up about how they'd fired one O&M contractor at a renewable energy facility in a Southern African country after a Chinese-funded mining client recommended the contractor*].

Lesson: Most PortCo leadership teams we've dealt with want to improve. They find these integrity issues challenging and often lack the support and know-how to navigate them. They're usually receptive if we/you are a partner and problem solver.

These questions may seem outliers. They're not. In every project, we have at least one "ah-ha" moment. Sometimes they're deal critical, often they indicate a current crack that, if untreated, could become a much wider governance chasm. Once we know that, we can support the investee and address the issue becomes it becomes a problem.

The interviews seldom take more than an hour or two (across the project). But they provide significant insight and value. When we sought feedback from clients, this is the element the deal team valued most describing our work as "a bridge"; insights into the behavioural and cultural dynamics within the leadership team. These indicators are a far more likely determinant of long-term success than whether they've implemented every policy.

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