# Case Study-1

**Background**

Riddhi and Siddhi are siblings residing in a remote village in north-east India. Over the years Riddhi and Siddhi observed that rampant and unchecked industrialisation is causing irreparable damage to the local environment and create health related issues for the residents. Dwindling air quality further added to the health-related issues.

The siblings graduated from a renowned medical college from Delhi. Armed with medical knowledge, they incorporated RISI Limited – a super-speciality hospital. The 303-bed hospital established in Assam delivers the highest quality of medical care through its team of expert doctors, nurses, technicians and management professionals. The hospital has Centres of Excellence in oncology, including surgical, non-interventional cardiology, cardiac surgery, gastroenterology and kidney transplant and neurology. The hospital also has robust critical care capabilities both adult and paediatric. Their business grew exponentially, and the equity shares of the Company were eventually listed on the Bombay Stock Exchange. Riddhi and Siddhi were appointed as Directors on the Board of the Company.

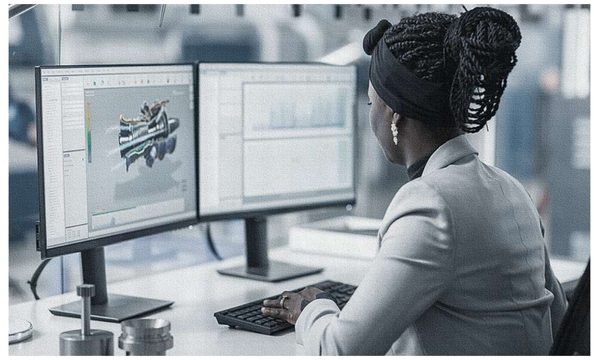
**The current status of RISI Limited described as follows:**

Since incorporation the mission of the Company remained consistent basis the initial understanding of the Founders i.e. to create a world-class integrated healthcare delivery system in India, entailing the finest medical skills for finest clinical excellence and distinctive patient care. Since then, the mission has not been revised. In quarterly meetings senior management expresses their desire to improve profitability, result oriented, innovate and learn. Occasionally, in informal meetings employees are told to work ethically and honestly.

The general environment, in which RISI Limited operates, is made up of elements of the broader community that have an influence on the healthcare industry and the company within it. There is a trend towards continuous research and development for the treatment of cancer, AIDS and the improved quality of life. More complex diagnostic equipment is being utilised on a daily basis in the healthcare industry, an example is the challenges of microscopic and endoscopic surgery.

RISI Limited analyse the internal and external environment of the organisation. It is thus how; the organisation's resources are allocated optimally by considering the analyses done, to achieve its goals. The plan devised as part of strategy illustrates the aims to improve the organisation's position and how it plans to respond to its external environment and where it needs to position itself to maximise its strengths and gain success in doing so.

RISI Limited has a flat fee structure as it believes in easy access to affordable healthcare systems. The Company has cost effective prices in relation to its competition. This strategy had indeed made a mark for the Company in the State of Assam. However, due to increased earnings, newer generations, expects a better healthcare experience for which they are willing pay an extra amount.



The implications of technological advances have created opportunities for RISI Limited to research and form guidelines and protocols for the use of any new technology to try and curb unnecessary expenditure, by ensuring that it is used cost-effectively, appropriately and rationally. During the last year, the Company attempted to enter into a joint venture with an entity specialising in treatment of cancer. However, the attempt failed. In the current year, the Company tried to enter into a strategic alliance with an entity undertaking research in AIDS. Despite multiple attempts the deal did not go through. As per Company's own estimate, these two alliances would have provided a significant fillip to the diminishing profitability of the Company.

The RISI Limited reduces the costs of medical facilities by controlling the behaviour of patients and healthcare providers. Control functions manage the interfaces between healthcare services, thus through this, a continuum of internal control to transactional control is exercised. The Company especially owns strategic value in terms of their technological resources: computer soft- and hardware and also in the financial and organisational resources that have been put in place.

The Company require its professionals to have a wide range of technical skills to provide the best healthcare services and soft skills to provide the best possible patient care. These professionals employ unique skills depending on the patient and situation. Healthcare capabilities help engaging with patients, influence how to communicate with them and provide optimum healthcare services. These skills help the Company showcase why it is an ideal choice and what differentiates the Company from competitors. The development of human capital is deemed to be part of the management of knowledge by the Company. Human capital refers to the knowledge and skill of all the employees.

RISI Limited has in the past invested in the training and further development of personnel, as training and development is essential to ensure that personnel know how to do their jobs and at the same time keep up to date with the latest techniques and technology. Separate budgeting was done for development and training purposes.

Management and employee performance indicate that the Company has employed many skilled and capable staff. Unfortunately, it has not made provision for the rapid growth that has taken place in the organisation. Recognition and growth opportunities appear to be the greatest problems experienced at this time. There is also no reward system for excellence.

The Company believes that performance reviews are crucial to the forward progress of both organization and the employees who operate them. These reviews are expected to improve team productivity and workplace satisfaction. The Company follows traditional performance appraisals. A manager and employee meet to review the employee's work performance annually. There are no set time limits on the completion of performance reviews. Typically, it was observed that a large number of employees on an average spends 15 minutes spend time with their manager at the end of the every year to discuss their performance. A preset rating system is used to guide the conversation. These rating criteria were framed by the Founders in discussion with a renowned consultant having expertise in manufacturing sector.

Decision-making systems in the Company are utilised within the organisational context, they range from budget and financial systems to very structured computer systems and even complex expert systems. These systems work in silos. The strategic value that has been added by these system has contributed to the development of staff skills and abilities and thus to the company's competitive advantage. Recently, the Company had hired an external consultant to suggest new systems. These new systems use cutting edge technologies and involve the use of generative technologies, machine learning and artificial intelligence. These new systems, if implemented across the Company's value chain would significantly overhaul the Company and usher the entity into a new era of data management and objective decision making. The Company is apprehensive of using the these new tools.

The decision-making systems are diverse and meet the requirement of every department. A large part of the data required for decision making purpose is maintained in spreadsheets by a capable and dedicated team of professionals. For decision making at the higher level a separate team of professionals are employed to extract the data from peripheral systems of every department and feed the data into the main system of the entity.

the organisation's different departments or units relate to each other, and have been described in the organisation charts and group and ownership structures. The Company has been divided in four main functions and are regarded and function as independent profit centres. These Strategic Business Units (SBUs) form is part of a multidivisional structure, which consists of the top level being corporate headquarters. The units function as profit centres and are thus responsible for their own budgets. They are to continuously follow through on their own objectives and strategies. These business units have their own core functions, but share common business, financial, administrative, and human resource policies.

Company's culture and employees' common and shared way of behaving and thinking. RISI Limited values and culture has been built on a foundation of absolute honesty, professional integrity, capability and quality. The company is very supportive in terms of its human capital. Any partnerships that are entered into are for shared advantage and to have created a winning recipe.

The Company makes a point of focussing all new staff towards a client and results orientation. Another very important, almost critical element of RISI Limited is the management and warehousing of data, as well as the leverage of information technology. It has been ingrained in the culture that service quality is extremely important, and a high service level and service quality is to be maintained all the time.

The Company's staff is made up mostly of healthcare professionals, information technology staff and office support staff. Staff members become major stakeholders in the organisation, as their employment provides job security and job satisfaction. The Company's staff refers to the type of people employed in the organisation with their different backgrounds, orientation towards clients, values and technology that makes the organisation successful. The organisation hires able people, train them well and assign them to the correct jobs. RISI Limited has always maintained an excellent reputation in the healthcare industry in terms of their knowledge resources; they have been known to be non-confrontational and rather to negotiate. Joint Ventures that they have entered into supports the brand name further.

A majority of the staff in the initial level comprise of female health care professionals. However, in middle and top level, the gender ratio is skewed toward the male professionals. A recent study shown that the Company losses 30% of its female work force in every 3 years. The Company has regular alumni meet to meet the ex-employees.

For the purpose of book closure of the financial statements for the current year – 31 December 20X4, Riddhi and Siddhi, met Ms Nidhi, CEO of the Company along with the auditor to discuss the audit plan and audit observations, if any. Ms Nidhi informed that the Company is expected to earn profits during the current year.

***The auditor highlighted that the audit is progressing and the observations till date are as follows:***

**Issue – 1**

RISHI Limited had entered into a contract with Vahan Chalak Limited- a transport agency - to use a particular ambulance van specified in the contract for a period of 7 years. Vahan Chalak can substitute another ambulance van only in case of breakdown of the van. As per the terms of contracts, during the 7-year contract period, the driver hired by RISHI Limited can operate the van and RISHI Limited decides how to use the van (such as when it is used and on which route it will operate). However, there are certain contractual limitations to protect the interest of Vahan Chalak in the truck, i.e., restrictions on making modifications.

**Issue – 2**

USA Chemical, an entity domiciled in USA, manufactures, and sells life saving drugs. RISI Limited entered into a contract:

- Involving purchase of 2 cartons of chemical on 1 October 20X4, when the price of the chemical is USD 100,000 per KG
- Delivery date of chemical 31 January 20X5 (conversion rate INR 160 = USD 1).
- Paid an upfront deposit of USD 40,000 (conversion rate INR 100 = USD 1) to the supplier.
- Deposit will be deducted from the total purchase consideration which is due to be paid on 28 February 20X5 (conversion rate INR 150 = USD 1).

**Issue – 3**

During the year remuneration of INR 2,00,00,000 was paid to Ms Nidhi, the CEO of the Company. Ms Nidhi is a Chartered Accountant with deep experience in recycling industry. ESOPs were issued as follows:

- *First tranche of 7,000 equity settled ESOP granted at the beginning of the year*
  - Grant date fair value INR 100 per ESOP
  - Vesting, exercise (at nil exercise price) of ESOP and allotment of equivalent equity shares were completed by the year end.
  - Exercise date fair market value: INR 150 per ESOP.
  - Allotted shares constitute 0.1% of paid up share capital.
- *Second tranche of 3,000 ESOP were also granted at the beginning of the year*
  - Vest period would end by the end of the next year.

As per the auditor the managerial remuneration paid to Ms Nidhi exceed the prescribed limits as follows:

| | **Rounded to nearest INR lakhs** |
|---|---|
| Profit before tax– as per Statement of Profit and Loss | 1,000 |
| Less: Unrealised gain of INR 10 lakhs | (10) |
| Net profit under section 198 of the Companies Act, 2013 | 990 |
| Maximum limit under section 198 of the Companies Act, 2013 | 109<br>(11% of above net profits) |
| Salary paid and recognised in the Statement of Profit and Loss | 100 |
| Excess managerial remuneration | 9 |

**Issue – 4**

RISI Limited had entered into a contract with SIRI LLP to purchase certain materials. Majority of the capital of SIRI LLP is held by IRIS LLP whose majority capital is held by Vaani Sole Proprietor incorporated by a friend of Riddhi. IRIS LLP holds 5% of share capital of RISI Limited. The key terms and conditions are as follows:

- Initially 10,000 KG of material will be purchased for INR 600 crores.
- Subsequently 15,000 KG of material will be purchased for INR 500 crores.

The CEO of the Company believes that the above transaction is not a related party transaction under SEBI Listing Regulations.