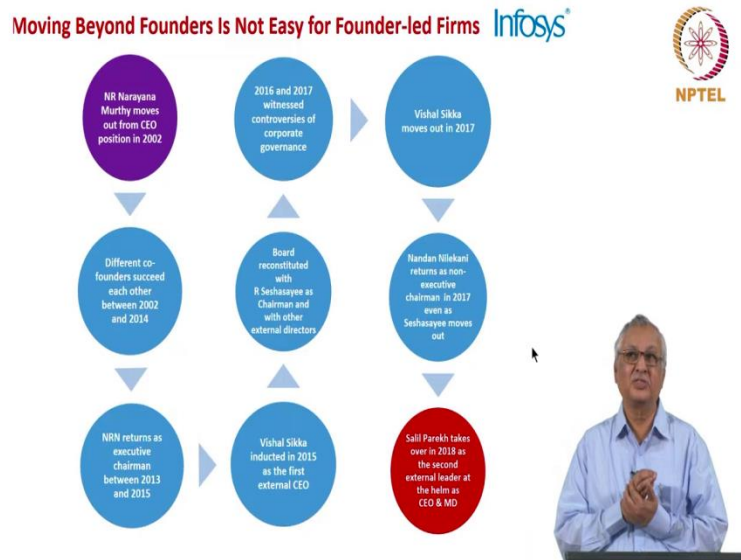


**Course on Entrepreneurship**  
**Professor C. Bhaktavatsala Rao, Ph.D.**  
**Department of Management Studies,**  
**Indian Institute of Technology Madras**

**Lecture 40**

**Beyond Founders and Founder-Families – Part 2**

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So, I will take the same example of Infosys to demonstrate and discuss another topic. This topic is that while it is excellent if we have co-founders who run the company on professional lines, which has been well proven by Infosys example, the flip side is that if a firm is exceptionally led by very enterprising and very capable co-founders for a long period of time, then it is difficult to wean the firm away from the overwhelming impact the co-founders exerted on the company. So, moving beyond founders is not easy for founder-led firms.

We will go through that with Infosys example itself. And again, there are no subjective or judgmental observations that are being made on, in this case. We are only factually looking at what has happened in terms of the leadership successions without going into detail what triggered those leadership transitions and whether there could have been managed differently that is again not the point in this discussion.

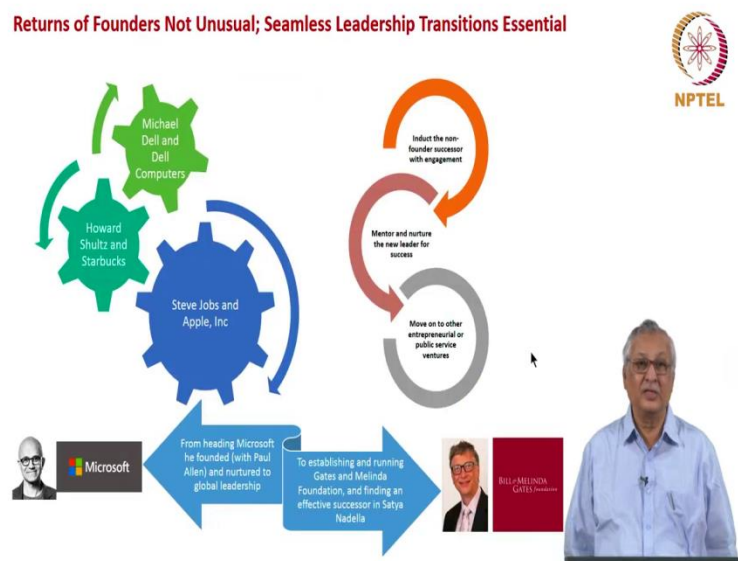
So, NR Narayana Murthy moves out from CEO position in 2002. Different co-founders, as we discussed earlier, succeed each other between 2002 and 2014 and NRN returns to Infosys as Executive Chairman between 2013 and 2015 again for reasons not germane to this discussion.

Then the company inducts Vishal Sikka, proven leader from U.S. is inducted into the company as the first external CEO. He comes up with a vision which is blessed by the promoters and then the company keeps moving along.

The board itself gets reconstituted with R Seshasayee as Chairman and eminent person and also several other eminent persons. However, between 2016 and 2017, the company witnesses certain misalignments and even controversies of corporate governance. Vishal Sikka moves out in 2017. Nandan Nilekani, one of the co-founders, who actually succeeded Narayana Murthy, in the past, he returns as non-executive chairman in 2017 even as Seshasayee himself moves out from the chairman position.

Then again in 2018 Salil Parekh takes over as the second external leader at the helm as CEO and MD. Between 2002 and 2018, Infosys has seen two phases. One phase where there has been seamless transition across co-founders, and another phase where the company has been desiring to bring in external talent and had its own hiccups on the way. So, the thesis is that moving beyond founders is not easy for founder-led firms and requires certain acuity, some, certain emotional intelligence on the part of both the promoter groups as well as the new external leadership teams.

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Another interesting fact is that the returns of founders to the companies they have founded is not unusual. Therefore, seamless leadership transitions all the more necessary. We have the example

of Michael Dell, returning to Dell Computers to rejuvenate the company. Similarly, Howard Shultz returned to Starbucks and took it to a new growth path. What Steve Jobs did to Apple Inc. upon his return is legendary. So why do founders return to the companies. Founders return to the companies because the companies apparently did not grow as was envisaged by the investor public, specialized investors as well as the founders themselves.

That is one important reason why it happens that way. Therefore, it is important that founders induct the non-founder successors with appropriate engagement. They should mentor and nurture the new leaders for success. And they should move on to other entrepreneurial or public service ventures so that their own capabilities are better utilized in the newer areas which where they have not been able to work because of the limitations of working in their own professional capacities in the entrepreneurial firms.

One example we have of Microsoft, where Bill Gates built this company to astounding heights and then he is found after a brief interlude with Steve Ballmer, the right Chief Executive, Satya Nadella and he himself moved on to set up a foundation, Bill & Melinda Gates Foundation to look after social empowerment and other healthcare improvement initiatives across the globe.

So, this is a very interesting and very powerful example of how entrepreneurs can take a company to great heights, find an appropriate CEO and in advance or in parallel or thereafter move to set up their own different kinds of enterprises which will do good for the world at large. So, while the returns of founders is not unusual, leaders moving on in a very positive and successful way is also not unusual.

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**Transition Challenges for Founder/Family Controlled Firms**



The succession sagas at Tata Group and Infosys emphasise that 'change with continuity' holds the key to smooth and seamless transitions as founders and leaders move out

Synergy of the past, present and future

Contemporary technical and business competencies

Traditional and consensual approach towards multiple stakeholders

Sensitivity to feedback and customised articulation helps avoid disconnects and disruptions. This is especially required when founders and families have a track record of growing their start-ups successfully into multi-billion dollar enterprises.



So, what are the transition challenges for founders and family controlled firms. We have had in India itself certain episodes in reputed groups like Infosys and Tata where what was thought about as a change with continuity did not happen. It actually emphasizes that any radical change in founder-led form is bound to be posing certain risks.

One, the companies would have been very well managed until that point of time. And although there is a need that is perceived for external talent to take the company to greater heights, the past cannot also be forgotten. So, the successful formula in such a situation could be change with continuity, where there is a need for change in terms of induction of more state-of-the-art practices, but continuity is also required because the company has created a great legacy and the legacy needs to be reinforced overtime than disrupted.

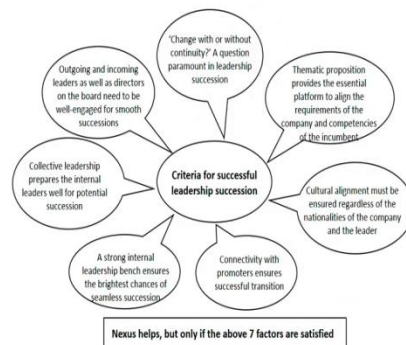
So, what has happen? We require synergy of the past, present and future in an ideal transition. We need to bring in very modern, contemporary, technical, and business competencies, and we should also have traditional and consensual approach towards multiple stakeholders. It is not that the founders move away from the scene and completely disconnect themselves with the investments they have made until now and the companies they have grew until now. Therefore, there is a need to ensure that the past, present and the future are well synergized. That is need number one.

Need number two, the new people bring in contemporary technologies and business competences to the firm. And thirdly, in this process, there is consensual deliberation amongst various stakeholders and making sure that the proposition of change with continuity is well established. This is always supported when there is sensitivity to feedback and customized articulation. So that disconnects and disruptions are avoided.

And particularly when founders have a successful track record of growing their companies into multi-billion dollar enterprises there is all the more reason why the past should be seen as a trendsetter for the future than a trend breaker for the future. This is one of the important macro perspective on leadership transitions in founder or family controlled firms.

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### A Framework for Enabling Successful Leadership Transition



Now to establish a framework for enabling successful leadership transitions, we need to answer 7 questions. The first question is, should we have change with continuity or change without continuity? That is the paramount question in leadership succession. There could be certain specific contextual situations where there need not be any continuity, total change maybe required, probably in respect of a turnaround situation.

But in a situation, as we discussed, where the company has progressed very well, change with continuity is probably better applied. Second, what is a thematic proposition for the new leadership? That is the essential platform to align the requirements of the company, the

competencies of the new leader so that this vision is achieved. Third is what kind of cultural alignment we are looking at.

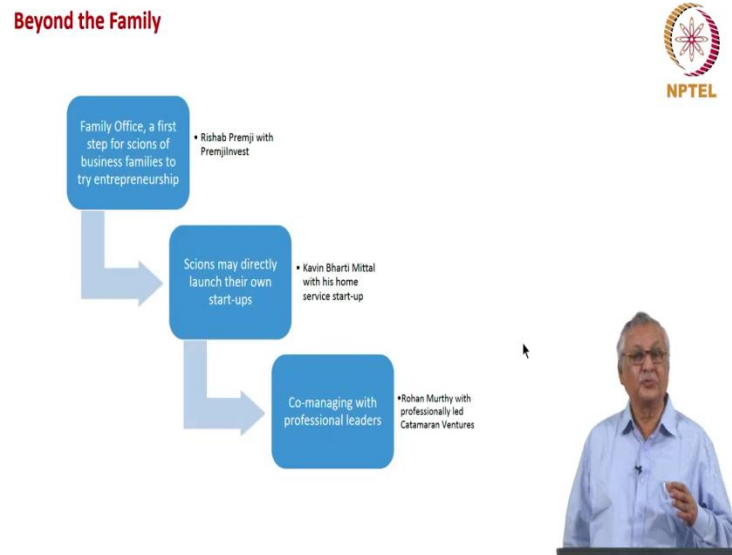
It is possible that leaders come from different cultural backgrounds, whereas the company by itself would have a cultural DNA which is unique to it. So, it is not a question of nationality of leader. There have been cases where people of different nationalities function very well. We have examples of more than 10 Indian Americans or Indian Europeans working very well in global companies. So, it is not the nationality. Culture is something that transcends nationality. Similarly, we have got successful examples of people expat leaders working successfully in Indian companies. So, cultural alignment is more important than national homogeneity.

The fourth question is, what is the level of connectivity which promoters would like to have and which the new CEOs and new leaders would like to have? The fifth question is what is the strength of leadership we already have in the company? If the leadership bench that is existing in the company is strong and is not disrupted by the change that is happening, then there is greater success that would arise from the leadership transition.

And the sixth question is that, are we going to adopt a model of similar leadership when we bring in a new leader or are we going to continue or follow a path of collective leadership? And if we have a path of collective leadership, then it could portend well for the leadership transition. Then how well engaged we would like to be outgoing and incoming leaders, as well as directors on the board need to be well engaged for smooth succession. So, we may conclude that all of these things could be easily fulfilled if we bring in external leaders who are having a nexus with the company in some form or the other.

The nexus could be in terms of family ownership in terms of institutional roots or in terms of being on the board for several years or being an advisor for the company or a very bright person working in the consulting company, which has served the company in the earlier years. So, any of these things could be construed as nexus. But the point is that nexus helps, but only if the above 7 factors are satisfied to an appropriate extent. So, satisfaction of these 7 factors helps us have a framework for successful leadership transition.

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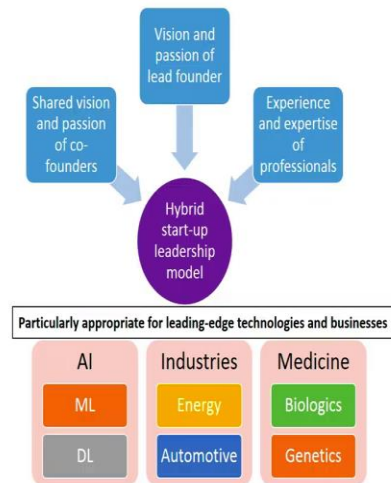
Now let us look at how the scions of families can cut their teeth into entrepreneurial forms. One tried and tested way is to move them across the hierarchy. Start with a management trainee position or move in to a kind of general management position based on certain extraordinary educational qualifications one might acquire and then move on to leadership position. That is well known, logical and tried and tested. Even Ratan Tata went through certain loops and hoops before he became the chairman of the company, of the group rather.

But there is in these days of entrepreneurship, in these days of huge personal wealth that has been created by successful entrepreneurs, there is a second route as well. That route is the route of family office. The scions can head the family office and that could be the first step for them to cut their teeth into the business of managing firms. Example, Rishab Premji with PremjiInvest.

There could be another option of solving entrepreneurial problems by having their own entrepreneurial firms. There one example is Bharti Mittal Kavin, who has set up his own home service start-up. Another model could be to co-manage an investment vehicle set up by the successful entrepreneur through professional help. So, any of the three models could work for successors from the family to become entrepreneurially oriented as also professionally oriented. These are the different models and the any of the three models and all the three models could work in tandem.

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### Synergy of entrepreneur-promoters and professional leaders



But our goal should be to bring in synergy of entrepreneur promoters and professional leaders. So, there are three aspects to this. Our objective should be to have a hybrid start-up leadership model. Obviously, that would have the vision and passion of lead founder, which is shared by co-founders and which is supported by the experience and expertise of professionals in the entrepreneurial firm.

If Infosys grew, if Wipro grew, if Bharti grew, if Tata Group grew and whole number of Indian conglomerates and leading corporations grew, the growth has been driven by this synergy and we have had a successful hybrid start-up leadership model which I have just presented. But this model is even more appropriate as we look at leading edge technologies and businesses, such as artificial intelligence, machine learning and deep learning.

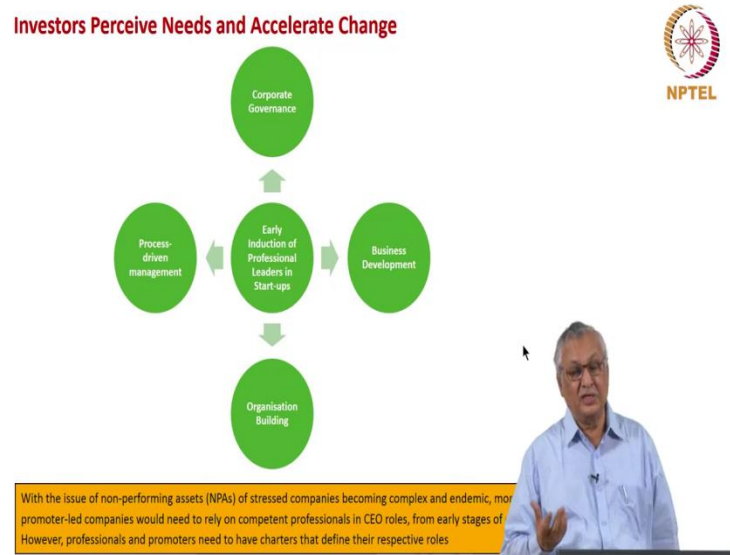
When industries are getting transformed as oil and gas sector is getting transformed or the broader energy sector is getting transformed or the way the automotive industry is getting transformed to electric technologies or how the healthcare industry is getting changed by developments in biologics and genetics.

Why is this important, because these technologies and these business models are so disruptive, unless we have got common vision and passion, unless we have got shared support from the co-



founders, unless we have got subject matter expertise coming in from the professional leaders, we will not be able to make a strong presence in these leading edge technologies and businesses as we go forward. So, we should strive to internalize, institutionalize entrepreneur promoter and professional leaders' synergistic models in our country.

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At the same time, we also have to understand that it is not all about entrepreneurs, the founders, the professional leaders, and it is not that they can decide and determine how they would run their organizations. We have seen now in our earlier sessions that millions of dollars are poured into the start-up companies with certain aspirations and objectives on part of the investors. So, investors also perceive the needs and they accelerate the changes in the leadership structures of entrepreneurial firms.

They also, at times, trigger early induction of professional leaders in start-ups. In cases where the commitments are high, the investors bring in professional leaders or enable founders take on professional leaders far ahead of the requirements or far ahead of the time the companies are ready to become mainstream companies. So, these 4 elements which I have presented here are the drivers of such an accelerated transition or accelerated reinforcement of the leadership bench.

One, the need for corporate governance. Investors recognize more than anybody else that the company has to be run on good corporate governance basis, so that public listing or further

rounds of investment are facilitated. So corporate governance is one reason why professional leaders are inducted into the entrepreneurial companies.

It is not that entrepreneurial companies do not recognize the need for corporate governance or that they do not know corporate governance. The only issue is that systemically they are wired to do a few things to get to the market very quickly, whereas professional leaders are also wired to do the same thing but in a systematic process. So, induction of professional leaders helps institutionalize corporate governance, albeit with some sacrifice on timelines in an entrepreneurial company.

Second, business development. While the entrepreneurs may be excellent in terms of product development, prototyping, in terms of testing and validation, even initial pre-commercialization activities, business development and marketing tend to be highly professional roles for which external professional leaders would be of great help.

The third trigger is organization building. Building, motivating and inspiring a small entrepreneurial firm, let us say, up to 100 numbers, 100 employee members is not at all difficult for an energetic entrepreneur. However, scaling up that organization to 1,000 people, 10,000 people as the company becomes mainstream is a professional task. It requires people who have managed that kind of organizational strength in their earlier capacities.

The fourth one is process-driven management, because management in a mainstream company has to be more process-driven compared to management in an entrepreneurial company. The professional leaders bring the knowledge of systems, structures, processes, which will ensure integrity of decision making, which will ensure commitment and monitoring in execution. So, these are the four triggers that would enable better governance in, better management in entrepreneurial firms and investors perceive this need and they accelerate the change towards professional management.

We also are aware that big firms and even small firms are now susceptible to the problem of non-performing assets. Non-performing assets are those assets where the debt levels have increased and where the returns have been poor. We substitute debt by risk capital in entrepreneurial firms and when the losses continue, it is an issue.

So, we need the elegance of management, the rigor of management to ensure that entrepreneurial firms do not remain investment guzzling, fund guzzling, entities for too long and they provide returns to the investors in good time. They provide wealth generators mechanisms sooner than later. So, professionals and promoters are required to work together to develop charters which define their respective roles in this transformation.

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**A Typical Promoter/Founder-Professional Role Charter**



Domain	Promoters/Founders/Family Role			Professionals' Role		
	Sole	Joint	Only Review	Sole	Joint	Only Inputs
Vision Setting		✓			✓	
Strategy Development		✓			✓	
Execution			✓	✓		
Capital Allocation		✓			✓	
Fund Raising		✓			✓	
Budgeting			✓	✓		
New Investors	✓					✓
Technologies			✓	✓		
Functional Strategies				✓		
Top Management Recruitments			✓	✓		
Exit from the Company	✓					✓



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So, what is the role charter? This is one example. Suppose we have promoters, founders and families. We also have professionals. We can see a number of areas where in people could take their decisions. It could be vision, setting of vision, it could be development or strategy, execution, how do we allocate capital, what is the level of funding that is required for a company and how do we do that, budgeting, new investors, technologies, functional strategies, top management recruitments, exit from the company.

Now there could be a situation where certain decisions have to be taken only by the founder, there could be situations where decision making could be jointly done with the professionals, and in certain cases where the respective party gives only inputs and if the inputs are taken well and good, if the inputs are not taken, that is also well and good, because the decision maker has got different perspectives on that.

So if you look at vision setting, for example, it has to be done jointly by the professionals as well as the founders, but the idea of getting new investors, the promoter has to take by himself,

particularly if the promoter is having majority shareholding and continues to be in controlling interest even in the case of minority shareholding. The professional's role is that of giving inputs.

Similarly, capital allocation could be done jointly or should be done jointly by both the promoters and professionals, whereas top manager recruitments should be done solely by the professionals with the review by the promoters. Exit from the company, it has to be the sole decision of the promoter and professional can only give input.

So, seeing from whichever angle each of these points has got certain roles that are ideal for the promoters, founders and family on one hand and professionals on the other hand. This is an illustrative chart, charter. Each company would have its own requirements. Each company would have its own perspectives and the context of how this decision making should be done.

But the charter has to be prepared when professionals are inducted into the company as to how the decision making would take place and what are the respective roles and responsibilities and where consensus is a must, where sole decision making is a must and where only an input or review mechanism is appropriate. That is the basic framework. And mature organizations or mature boards, mature leaders try to develop this charter before embarking on leadership transition.