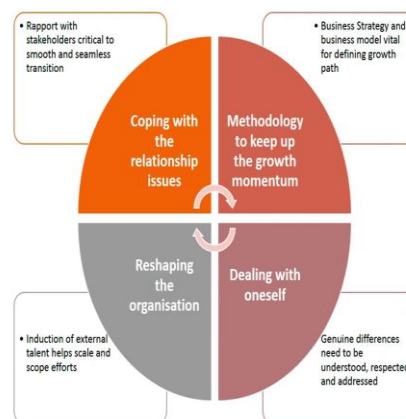


Entrepreneurship
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Lecture 41
Beyond Founders and Founder-Families
Part 3

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Four Critical Facets of Leadership Transition



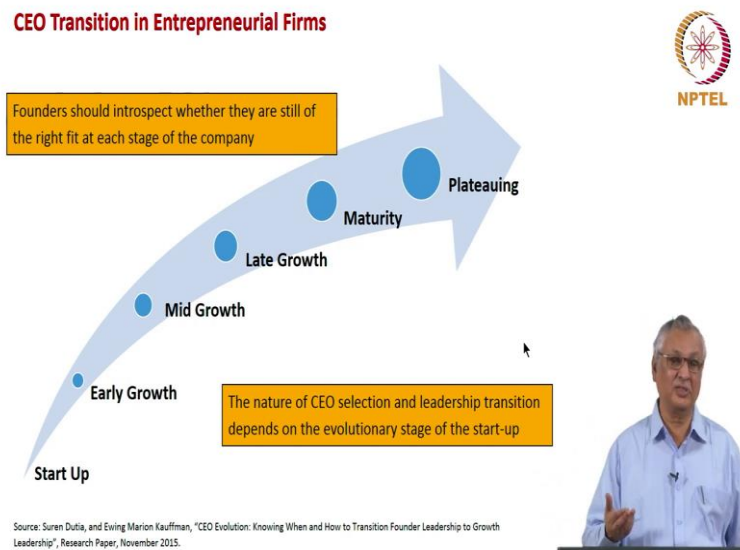
Now what are the four critical facets of leadership transition? We have considered several aspects of leadership in founder led, co- founder led and family led corporations. So, what are the four critical facets? The first requirement is how do I keep up the growth momentum? That is the first requirement obviously. Entrepreneurial firms have been what they are because of the growth momentum.

So how does one keep up the growth momentum? For that business strategy and business model are vital for driving the growth part. The second is, how do we achieve scale and scope? Growth is achieved essentially by scale and scope, more capacity, and better product market scope. So how do I, therefore reshape the organization.

The third one is that how do I deal with myself? When I enter in an organization as professional leader, particularly in organization which has been entrepreneurially driven, founder lead let us say until now, how do I capture the differences, how do I understand the differences and how do I respect the differences, that is one of the important aspects and to be able to do that, the leader should first understand himself or herself.

Then once this is in place, this framework of a growth methodology, the framework of organization building, the framework of understanding oneself is in place, one should know how to cope with the relationship issues that are bound to take place and for that rapport with the stakeholders is critical, to ensure that there is a smooth and seamless transition for the company.

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And CEOs can be inducted at different stages of the company, as we discussed. Typically, a company will start as a start-up company, will have growth in terms of 3 phases, one is early growth, where first a green shoot of commercialization takes place then mid-level growth and the third one is late growth. Then the company goes into maturity phase and eventually growth plateaus.

There will also be a situation where there could be decline and there could also be an exit from the industry. So, keeping the two extreme aspects of decline and exit apart, founders need to examine at each stage, whether their ability set, whether their competency set, whether their overall mind set is still the right fit for the stage of the company that the time tells.

So, introspection whether they are still of the right fit at each stage of the company is vital to understand the need for CEO transition. Again, the nature of CEO selection and leadership transition depends on the evolutionary state. You will require one type of CEO, if the foundry is willing to transit at an early growth stage and you would require another type of CEO if the transition takes place when the firm has reached a level of maturity.

And of course, if the firm is having exit issues or the firm is having declining issues, you require a different kinds of executive, mostly a turnaround specialist to be able to manage this and at that point of time possibly also the founders would no longer have the choice to determine whether there is a need for leadership decision. That could well be a mandatory requirement for the change.

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CEO Cultural Capabilities; Besides Technical and Business Skills



Now, we have talked about from a founder angle, when he should decide, how he should decide, what he should do and how this whole transition could be thought about and enabled. But let us also look at what are the CEO capabilities. When CEO enters in an entrepreneurial firm, he should have certain capabilities and in any organization those capabilities are likely to be the same.

Whether you are in an entrepreneurial firm or you are in a professionally managed mainstream firm, the capabilities for CEO are by and large the same. That said, there would be a much greater emphasis on the cultural aspects of the competencies besides the technical and business skills which are any way given. High level of business and the technical competencies is required to pursue a growth plan and to execute a growth plan that is granted.

But what are the cultural capabilities which a CEO should have? First of all, the culture of governance. An external member comes into an entrepreneurial firm to shape that company into your well-structured, well organized and well-governed company and a company which can stand the test for a public listing at some point of time or the other.

Therefore, a culture of governance is very important, which means promoting integrity and compliance in the organization that would be one core aspect of the new leader. Second, culture of collaboration. An individual may be entering an entrepreneurial company similarly, therefore he would inherit a large organization which is already present and which is functioning in a particular manner. So, a culture of collaboration, ability to take the legacy team on board that is extremely important.

Then the third is culture of sustainability. Entrepreneur firms grow with or without profits and mostly without profits. If you really look around and see how the entrepreneur firms have been growing, they have been growing in the market share but not necessarily in the profitability.

So, a professional leader when he or she enters an entrepreneur firm bringing in a culture of sustainability is extremely important. That is what Anant Narayan tried to accomplish when he entered Myntra from McKinsey. He said that his goal used to be the first profitable fashion e-commerce entity in the country. So that is the vision with which he came on board.

So, culture of sustainability is very important and balancing scalability of the business as well as the sustainability of the business that becomes another important cultural factor. Then culture of openness. Many times, these changes, particularly the leadership changes are cloaked in secrecy. They are announced all of a sudden.

So, this strategic significance of the transition, does it mean the promoters are exiting or they are losing interest or that they are seeing the end of the business model or they are signalling that the entire organization has to be reshaped. There could be umpteen questions that arise, then a leadership transition takes place.

Therefore, a culture of openness on identifying the issues of concern and how these will be addressed that will be very important. Equally important will be the culture of creativity. Probably one of the most important aspects of cultural transformation is actually embodiment of the culture that gets further reinforced when a new leader comes, because the spark of entrepreneurship is verily the spark of innovation.

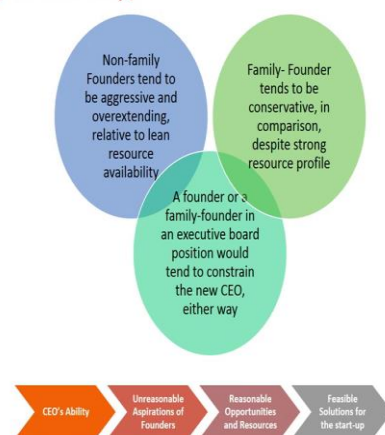
So how do you retain the entrepreneurial innovative spirit, the creative spirit within the organization? So, you should continue to promote the culture of creativity in the organization. Then the culture of connectivity, willingness to be respectful towards the founder's accomplishment thus far.

So, this is slightly different from taking the organizational team on board. This is a specially tuned towards the founders, their contributions thus far and how the new management could be in touch with the founders and benefit from their ability and also convince them how they would take this company on a new growth path going forward.

So, the cultural capabilities besides technical and business skills are extremely important for the CEO as he or she enters an entrepreneur company.

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Coping with the family / founder



But that said things won't be as easy when it happens in terms of a leadership transition. For the new CEO, coping with the family and founder will have certain significant behavioural issues.

We discussed earlier that there are two types of founders, family founders and non-family founders. Non-family founders tend to be very aggressive, not necessarily in terms of trying to do things fast, but more importantly trying to do things that the lean sources would permit. So that is the aggression which a non-family founder tries to exhibit.

On the other hand, family founder is likely to be more involved in cash management, would be respectful of remaining cash surplus as much as possible and therefore, in spite of having a group strengths that could promote very aggressive enterprise building, the family founder would tend to be a little more cautious and conservative.

So when these are the kinds of behavioural attributes of a non-family founder or a family founder, if such a family founder or a non-family founder continues in an executive position

or in an influential board position, that presence is likely to constrain the new CEO either way, either in terms of the cash conservatism or cash aggression, in terms of the growth aggression or in terms of the growth moderation.

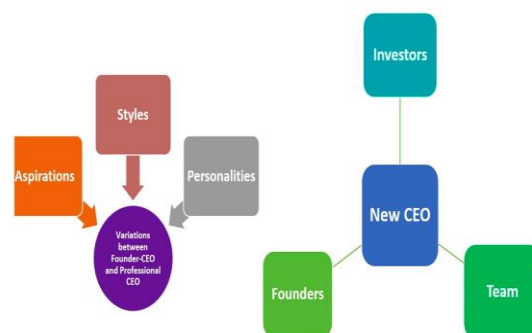
So, having the family founder in a continuing executive position is a challenge. So, we have a four-point formula to deal with that, One, obviously CEO should have all the abilities which we have discussed earlier, to be able to bring his persona to the organization. Second, he should recognize what are the aspirations of the founders that are unreasonable and that are reasonable.

Correspondingly what are the reasonable and unreasonable opportunities and what are the reasonable and unreasonable resources that are required. So, ability to map the opportunities, constraints, resource requirements and deliverables and providing a feasible solution for the start-up that is the CEO's ability.

So, depending upon the influence or the continuing influence of the family founder or non-family founder, the new CEO must develop his own grid of opportunities and challenges, resource requirements and execution capabilities and provide feasible set of solutions for the family or the founder.

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Multiple Influencers on Founder and CEO Dynamics



And that is again easier said than done, because there are multiple influences on founder and CEO dynamics. They are bound to be variations between how a professional-CEO functions and a founder-CEO works. And these are essentially three in terms of triggers, one

aspirations, aspirations vary, as I said that professional CEO would like to have profitability and sustainability as soon as possible, whereas the founder would continue to pursue growth.

Second, the styles, founder is so internally obsessed with the contributions he or she has made, his or her ability to understand what else could be done by the others tends to be somewhat skewed. So, styles could be different. And personalities themselves could be different. Having brought a company all by oneself from the single smallest existence to what it is today, the personalities reflect that level of conviction, that level of pride and that level of in some cases ego.

So, the aspirations, the styles, the personalities, they vary between a professional-CEO and the founder-CEO. That is one part of this story. The other part is that the new CEO has got primarily three stakeholders, he or she as to cater to. One the investors, who are the lifeline for an entrepreneurial company, two the founders who are likely to be the opportunity makers as also the constraint makers and the team, which is the essential vehicle to take on the task further to newer realms of growth.

So, these are the multiple influencers that we have in terms of founder and CEO dynamics. So, handling all of this is extremely important for the new CEO.

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Managing Founder, Co-founder and CEO Dynamics

Multiple Co-founders	Co-founders' Responsibility	New CEO's Responsibility
Invisible inter se power dynamics; some could appear to be passive but could wield immense influence	Discourage surreptitious or open use of extra-constitutional power, and align the new CEO and the co-founders onto a common agenda	Moulding all these relations in his or her favour is a challenge for the professional CEO. The entrepreneur, the family, and the CEO have a major responsibility in ensuring that such elements do not diffuse the focus and thwart the effectiveness of the CEO.



So how does one look at this problem? There are 3 aspects to it. One, we have multiple co-founders as we have discovered in most companies. Two, co-founders have certain responsibility and the new CEO in the third aspect has got certain responsibilities.

So, the fact of the matter is invisible inter se power dynamics, whether one likes it or not, they happen and some of them tend to be passive, but they could wield, influence immensely. It could be a strategic shift that could be occurring and on that everybody else other than the CEO may have an opinion and by having an opinion which is unexpressed and which is passive, that could lead to significant impedance in the organization. That is the issue of multiple co-founders.

Given that this is the situation, what are the co-founders responsibilities set? One, discourage, surreptitious or open use of extra constitutional power, because we have enjoyed power until now in a formal structured way. We cannot allow our power to be utilized by anybody else in a surreptitious and non-helpful manner and our responsibility as co-founders should be to align the new CEO and ourselves onto a common agenda.

The new CEO has a responsibility. What would be the dynamics once the CEO is in, it is the CEO's responsibility to ensure that he or she takes the total ownership what the entity that represents both in terms of the physical parameters or in terms of the cultural parameters. He owns it all including the founders.

So how do I mould all of these things in my favour, would be the CEO's requirement. Bringing together the entrepreneur, the family and the CEO himself or herself is a major responsibility and it is the CEO's responsibility to ensure that the power dynamics would not distort or thwart the efforts that are to be made by the CEO in transforming the company. So, this is the issue.

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Countering Informal Channels and Continuing Micro-management



Now that is again easier said than done. So how does one counter the informal channels and how does one counter potentially continuing micromanagement of the company? So, the CEO toolkit for handling this is very simple. There are 3 aspects to it, one, structured strategic planning and budgeting. As long as vision is well articulated, the strategy a cleverly and clearly formulated and the goals are properly budgeted and stage gated, the ability to have eddy's around these plans would be very limited. So that is the first point.

Second, there should be visible performance management systems. There should be clear milestones, there should be clear deliverables and there should be clear measurement mechanisms and the third one, the discussion on all of these aspects. Whether it is strategic planning and execution or the performance management and rewarding that should be done through open communication channels and through discussion forums.

When this happens through this CEO toolkit, the CEO would be able to counter informal channels, would be able to counter micro-management effectively. So, to repeat good strategic planning and budgeting, visible performance management system and open communication and discussion channels go a long way in handling the issues of internal dynamics that may have existed or that could erupt when a leadership transition takes place.

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Keeping up the Growth Momentum – Challenges for the CEO



So, there are 2, I would put 2 types of challenges. One type of challenge is the challenge of keeping up the growth momentum. So how does the new CEO keep up the growth momentum? First, business development and commercialization. By and large, by the time a new CEO comes, the essence of product development could have been done, the technology would have been proved, tested, validated and the product would be ready for pre-commercialization.

The CEO is coming in essentially to add the depth of functional management, the breadth of a strategic diffusion which he has or she has to the company. So, business development and commercialization is an extremely important aspect of new CEO's tenure and how does the CEO do? Like getting new applications for the products by getting new customers to the product. And secondly, strategic planning and operations management, that is an area where new leader would make a significant impact.

What is done as back of envelope calculations as knee jerk responses to market developments can be handled through appropriate strategic planning and the operations management. So, having a very defined glide path for growth, ensuring that there is operational excellence in whatever that is adopted, the new leader can definitely ensure that the growth momentum is maintained and the quality of growth is improved further.

And the third one project execution and scale-up. Again, as I said by the time a new leader comes the essence of the product platform would have been proven but what would not be still proven is the supply chain, what would not be still established is the inhouse verses

outsourcing decisions, what would not be still done is the appropriate costing level, so there are number of issues which related to manufacturing, make or buy and then integration of different technologies. Againm these are the challenges and opportunities for the new CEO.

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But from the point of organization resilience the challenges for this CEO would also be threefold. One, how do I reinforce the legacy, how do I consolidate on the past accomplishments of the organisation thus far and how do I bring in the new process efficiencies without being disrespectful of the legacy.

Second, how do I define a new vision? New vision does not mean that the existing vision should be completely changed. There should be continuity, but at the same time it should take the company for another 10 years, 15 years, 20 years seamlessly. So, what is the new growth blueprint that I would be able to bring and how do I raise resources for that? And finally, how do I inspire the team?

Any leadership transition leads to some level of angst at certain, in certain quarters. It also could lead to certain consent in other quarters. So how do I inspire the team? The only way you can inspire an entrepreneurial team irrespective of the leadership chain used to continue to stress on creativity and innovation, continue to build on passion and commitment that had been the hallmarks of the entrepreneur organization thus far. So, there are three business operational opportunities and pathways for the CEO's.

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CEO Challenge: Paradox Management

While the very reason for bringing in a CEO into a family firm is to do things differently, yet when it comes to systemic changes, the entrepreneur or the family would more likely balk rather than support the changes, ostensibly for fear of losing business momentum or stability as the case may be. Paradox management is the very essence of successful CEO strategy



Similarly, there are three organizational opportunities and challenges for the CEO, but to be able to do that like every other CEO, in every other company, the CEO in an entrepreneurial mainstream company would also have paradoxes to solve.

While there is a every reason for bringing a CEO into a family firm, that reason principally being to do things differently. When it comes to systemic changes the entrepreneur or the family would more likely be diffident or a concern rather than support the changes and that could be due to either losing the business momentum or the business stability as the case may be.

But to be able to do that successfully, the CEO must excel in paradox management and typically successful CEO's excel in paradox management in any environment, whether they are in an established company and entrepreneurial companies, successful CEO's excel paradox management.

So, there could be typically 4 types of paradoxes one encounters. The first one is losing out certain people, bringing in certain other people, which means creating new knowledge positions and bringing in new talent for that even while rightsizing the organization. That is the first paradox.

How do I recreate restructure jobs? How do I rejuvenate talent? How do I ensure that my talent base is at the leading edge of technology and leading edge of business process? That is the first paradox to handle.

Second, how do I trim my current costs, so that I can become profitable yet make the kinds of investments that are required to move forward in future? So how do I marry the long term investment propensity of the entrepreneurial firm with the short term cost compression requirements to stay profitable? That is the second paradox.

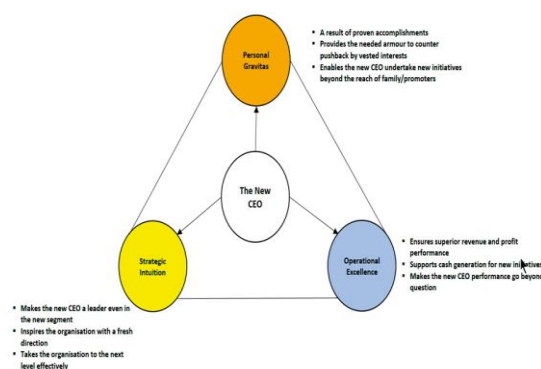
The third one is, while I may have created certain products, if the products are not creating the kind of markets that they are expected to create, how do I phase out the products and how do I bring in the new products and what does it mean in terms of investment requirements and finally to bring in all these things, how do I restructure my R and D and how do I restructure marketing so that there could be better commercialization, better scale up, and better sustainability.

So, these are the four challenges. You can start in any of the quadrant, but eventually the result could be the same. How do I restructure my R and D and manufacturing for better commercialization, scalability and sustainability, how do I create staff by new knowledge positions, how do a optimize costs both in the short term and in the long term and how do I do the product renewal for the company.

And if the CEO is able to manage these paradoxes successfully, he would also be managing the company equally successfully.

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Winning Triad for a Professional CEO in the Family/Founder Context



31



So, what is the winning triad for the professional CEO? Again, it is common across the board whether he is in a small company or a large company, whether she is in a entrepreneurial

company or an established company. Three factors determine whether the CEO is likely to be successful.

One personal gravitas. Every CEO should be able to bring certain personal gravitas to the position, that gravitas comes out of three factors. One it is a competent of proven accomplishments. Such personal gravitas provides adequate armour against pushback by western interests and it also enables the CEO undertake new initiatives.

If you have personal stature, you have your personal strength; you will be able to incubate new initiatives much more successfully than you would be able to do if you are not having that kind of personal gravitas. Second, operational excellence, while personal gravitas is important, ability to run the operations efficiently, productively and effectively that is very important.

So, for that you need operational excellence tool kit, which will ensure superior revenue, superior profit performance. It will support cash generation for new initiatives and it also makes the new CEO performance go beyond the question. Nobody can question the performance of the CEO, irrespective of any other dynamics that could exist in the company as long as operational excellence is achieved, to a top notch level.

Then the strategic intuition, one thing which differentiates a leader from others is the ability to intuitively do a few things, not merely instinctively but also intuitively, not merely by expertise and not merely by data, but by exercising the intuition that is very specific to the leadership.

So that makes the CEO a leader, even though he has entered a new context, even though he or she has entered a new firm, that is number 1. Number 2, the intuitive ability to take the current decisions and follow it through that makes the leader an inspiring leader and forth a strategically well guided organization goes ahead of the pack and is able to retain competitive advantage in a much more significant manner than any other companies.

So, these are the 3 factors which will help a leader become effective CEO, operational excellence, strategic intuition, and personal gravitas. Again, in whichever order you would like to take.

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Dilemmas of 'Change with Continuity'



Now we spoke about change with continuity, but what are the dilemmas involved in change with continuity. Because it is a very nice phrase, it says everybody would like to have change; everybody would also like to have continuity.

People would like to stay in their zones of comfort while also recognizing that unless they move out of the zones of comfort, they would not be able to make a mark in the competitive world. So, change with continuity is a nice buzzword, but what are the challenges and dilemmas of change with continuity.

So, when we look at change, the biggest worry is whether we would lose the past momentum. The second biggest worry is that we would be as upsetting the established dynamics and the third is that any change would require a new way of doing things, new products, new manufacturing facilities. Therefore, there will be enhanced capital requirement.

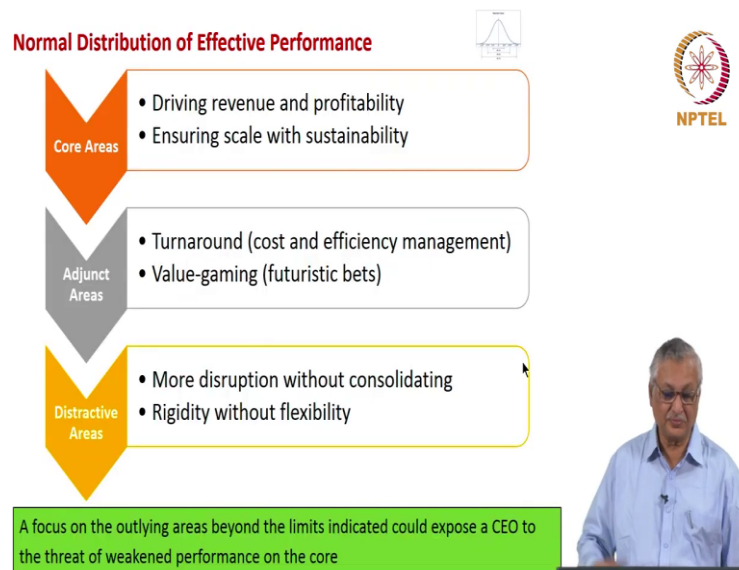
So, what is that mean for my business? And when you look at continuity, the worry was, we will fail on the change management after all we brought a leader inside the company mainly to achieve change.

But if we emphasize the continuity aspects of it too much, then you might fail on the change mandate. Second, if you are too much worry bond in terms of the continuity paradigm, you will not recognize the kind of competition that is already occurring and again competition could be very well ahead of you and you may lose out, that is the second worry.

And the third is that if you are too focused on both the things to an equal degree, you are likely to get stuck in the middle, you neither be changing nor will you be the same as you were before. So, you would be structurally changing yourself, but strategically you may not be changing or you may be strategically changing, but structurally you may remain as ossified as ever. So how do I manage this change with continuity that is the biggest dilemma.

The ability to manage this dichotomy is again one of the creative challenges and opportunities for the new CEO.

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Another important aspect is the normal distribution of effective performance. What is this concept? We all know about normal distribution. When you plot a whole series of data points, they tend to follow a normal distribution and there will be a core which is about 70 percent most of the talent, let us say you take an admission process.

You would see that it is the desired average, the high-performance average or high-performance peak, which you would like to have, you will find that there are a few candidates where this side and who are candidates this side.

And it will again have further trough and further trough. So, you will call it as 1 sigma limit, 2 sigma limit, 3 sigma limit or whatever it is. So, but to put it in a simpler way, there are basically 3 types of domains or areas where the leader should concentrate. One the core area, second is the adjunct area, and the third is the distractive area, which could also be disruptive area.

Now if you focus on core areas, you are bound to succeed. That is driving revenue with profitability, ensuring scale with sustainability. That should be 70 percent of your effort. Then there is also this adjunct area where you may need to turn around for better cost and efficiency management. You need to make futuristic bets, which is value gaming.

So this is adjunct area and you also need to look at destructive areas, disruptive areas, distractive areas each could prevent you from effectively functioning in the core areas and adjunct areas, that is trying to disrupt the business without consolidating, trying to be too much rigid without being flexible or being too flexible, without being rigid.

Therefore, when you want to take up a new business activity as a leader, you need to be very focused on what is your core area of performance, core metric of performance, what is your adjunct area and what will be, what is likely to be the destructive or distractive area for your performance. Therefore, a focus on the outlying areas beyond the limits indicated could expose the CEO to the threat of weakened performance on the core.

So, if you put in too much effort on adjunct areas, core areas are likely to get impacted or if you put too much on the distractive areas, both core and adjunct could be affected. So, in terms of the normal distribution of effort and rewards, you should have that kind of a distribution.